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An Investigation of the Marketing Opportunities for Product Differentiated Saskatchewan Beef

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The views expressed in this report are those of the author(s). The Agriculture Development Fund (ADF) does not accept responsibility or liability for any conclusions or recommendations in the report, and cannot guarantee the accuracy of its data or observations.

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I EXECUTIVE SUMMARY

The purpose of this project was to analyze the marketing opportunities for product differentiated Saskatchewan beef. The study concluded that: (1) Saskatchewan's economy would benefit from the diversification and expansion of agriculture and food processing that would occur if more beef cattle were fed, slaughtered and processed in the province; (2) Saskatchewan does have the capacity and resources to expand beef production, in the province; (3) There are limited market opportunities for the development of a differentiated Saskatchewan beef product; (4) there are several current policy issues which, depending upon how they are resolved, will have an impact on specific direction Saskatchewan should take and (5) the Canadian slaughter and processing sectors are going to have to become competitive with their U.S. counterparts if they are to maintain and expand their business.

Policy Issues

Adoption of the Canada - U.S. Free Trade Agreement will not have a dramatic impact on Western Canada's beef industry. On the other hand, rejection of the FTA will have a significant impact, particularly if the continued impact of U.S. no-roll product is not curtailed. Exchange rates will have an impact on the competition of the Western Canadian beef industry. Over the long-term, adjustments will be made to account for exchange rate movements. As Canada moves toward de-regulation in the transportation industry, transportation rates will likely fall.

Consumer Demand

A review of relevant literature; consumer surveys via telephone, store exit interviews and focus groups; and discussions with industry participants at all levels have resulted in the following conclusions.

Eastern Canada

Canadian consumers are accustomed to a lean beef product, with a maximum of 1/4-inch back fat. Recent research suggests that Canadian beef could not be produced any leaner and still be acceptable to consumers. The Montreal market places more emphasis on lean than the Ontario market. Ontario, although still concerned with lean is more concerned about aging and tenderness.

U.S. no-roll beef has been a factor of increasing importance in Eastern Canadian markets over the past several years. It is sold openly in both the retail and food service sectors in Montreal, and primarily through the food service trade in Ontario.

The only natural beef program of consequence in Canada is the Loblaw's "Natural Choice" program. Natural beef sold at premium prices is not likely to capture a significant share of the Canadian beef market during the next decade. There is limited potential for a high-quality, well-aged, branded beef product sold to and through up-scale retail outlets at small price premiums, particularly in Quebec. The program would require a cooperative marketing by a feeder, packer, and retailer(s) in order to be successful.

Southern California

There is a strong demand for leaner beef products in Southern California, driven by health and nutrition concerns on the part of consumers. U.S. suppliers have responded to that demand by trimming beef cuts to a maximum of 1/4 inch external fat. Consumers generally have not made a distinction between lean-trimmed beef and lean-produced beef. An attractive opportunity exists for a Saskatchewan beef marketing program that documents the lower fat and cholesterol content of lean-produced beef and promotes that difference to Southern California consumers.

While "natural" beef products have received publicity in the food press, a small percent of Southern California consumers have heard of these products. While most respondents to the California Consumer Survey (which formed a part of this project) expressed concern about antibiotics and hormones in beef production, some thought that natural beef was a marketing gimmick. A minority of consumers stated they would pay a price premium for natural beef products. Sales of natural beef products in Southern California have been limited by the 25 percent price premiums charged by suppliers and retailers, and by a lack of awareness of the availability of these products on the part of consumers. Natural beef has not been supported strongly by California retailers.

About one-third of consumer respondents stated an interest in supplier-branded beef. While focus group participants agreed on the desirability of more nutritional labelling on beef, they were concerned that producer labels would increase the price of beef, which they already perceive as being high priced. No fresh supplier-branded beef items were observed in Southern California. Even Coleman's Natural Beef loses it identity in health food stores because the company does not grant exclusive marketing rights to any one retailer. Branded frozen beef steaks can be found in discount stores. Given current retailer resistance and consumer apathy, it is unlikely that there will be a major move toward retail-level producer brands during the next decade. All boxed beef will continue to carry the suppliers brand name at the wholesale level.

Beef produced on the Western Canadian prairies was viewed favorably by about two-thirds of respondent consumers in the Southern California consumer survey. This positive image indicates a marketing opportunity for differentiated beef from Saskatchewan. Two major consumer reservations--freshness due to distance and inspection for wholesomeness-could be directly addressed in a consumer education and promotion program.

Structure

Canada

Traditional product flows in Canada have been from West to East with the Montreal market being the major Eastern Canadian market for Western beef products. Until recently, Ontario has produced approximately the same amount of beef which is consumed.

U.S. no-roll has become an increasing factor in the Eastern Canadian market in recent years.

Provigo, Metro Richelieu, and Steinbergs account for between 70 and 80 percent of retail sales in Quebec. Although boxed beef is becoming a more important factor in the market, a significant portion of the product is moved from West to East in the carcass form. Carcasses are broken by retail owned wholesale affiliates or independent wholesalers. The role of the Montreal wholesaler has declined with consolidation in the retail sector.

The Montreal market has an extreme concern with leanness to the extent that traditional determinants of quality (flavor and tenderness) have been sacrificed in the interest of less trim and higher yields. There is an opportunity for a producer/packer/retailer joint venture to develop a branded product based on high quality and proper aging.

U.S. and California

Three packers, IBP, Excel, and the ConAgra Group (Monfort, Swift Independent, Armour, and Miller), account for two-thirds of U.S. fed cattle slaughter and similar market shares of beef in California. IBP sets the price and quality standard for boxed beef, which accounts for over 90 percent of total beef supply in the Southern California market.

Beef "breakers" purchase carcass or boxed beef and break it into sub-primals or consumer-ready/portion-control cuts. Most independent breakers sell to the food service trade, and some retail chains operate their own breaking plants. Meat brokers are handling a declining share of the beef as packers deal more directly with retail chains. Distributors like Foster Farms, Zacky Foods, and Certified Grocers sell beef to independent or buying-group stores.

At the retail level in Southern California there are a few large chains (Von's, Ralph's, Lucky, Alpha Beta), many smaller chains, and up-scale, service-oriented stores serving various market niches. About one-third of all beef in Southern California is prepared by the food service industry, which is supplied beef through breakers and vendors concentrating on this segment of the market.

The Los Angeles beef market is large, highly sophisticated and very price competitive, however, there are retail chains, breakers, and distributors who are constantly seeking new supply sources and ways to differentiate their products.

Successful entry into this market will require:

1) meeting the IBP quality and consistency standards for boxed beef;

2) competitive prices on a yield-adjusted basis. Any consumer price premiums for a differentiated lean beef product would need to be allocated to market development and promotion for at least the first five years;

3) attractive product packaging for boxed beef or consumer packs, as well as nutritional information for in-store use;

4) representation in the market on a daily basis by personnel who understand the California beef market, supported by knowledgeable people on the supply side and;

5) consistent product supply by a company that fully stands behind the product and its marketing program.

Competitive Position

Production

At the current time Saskatchewan is cost competitive in the production of fed cattle with a similar sized feedlot in Alberta . The Saskatchewan Beef Stabilization Board has had a very positive impact on profitability in the feedlot sector, and it is surprising that the feedlot sector has not expanded more than it has, given its relative profitability compared to Alberta. Uncertainty with regard to the future of the Saskatchewan Beef Stabilization Board and the resulting profitability in the feeding sector will impact expansion in that sector of the industry.

Slaughter and Processing

The Western Canadian slaughter/processing sector is not cost competitive with its U.S. counterpart. Labour cost accounts for part of the differential. Labour productivity and economies of scale account for a majority of the remainder. If the

Saskatchewan industry is to expand and diversify, the processing sector is going to have to become competitive with the U.S. industry. Failure to do so will impact not only the processing sector but also the cattle production sector, both cow-calf and feedlot production.

Recommendations

1. **Develop and/or consolidate an improved information base on the existing Saskatchewan beef industry.**

Where are catt coming from!

We were able to establish that Saskatchewan has the existing capacity to expand its beef industry but our estimate of the amount of excess capacity (in the feedlot sector) involved several assumptions which had to be made because the information was simply not available in a useable form. We expect that much of this data is available, but simply has not been consolidated.

If Saskatchewan is to expand its market for processed product, an expanded but stable supply of high quality raw product (slaughter cattle) will be required. At this juncture we can state definitively that the *potential* for increased output exists. We can not be as sure of the extent of this potential.

2. **Expand extension and education effort in the area of feedlot production.**

Our analysis of feedlot profitability, although not a definitive study on the absolute level of profitability in the industry, indicated that the feedlot business in Saskatchewan has been relatively more profitable than it has been in Alberta (even after "Crow offset" and tripartite stabilization are considered), since the inception of the Saskatchewan Beef Stabilization Program. That given, Saskatchewan continued to export in excess of 300,000 feeder cattle (more than 125,000 to Alberta) through the years 1982 to 1987.

The Saskatchewan Government has developed and invested in several programs which are designed to diversify the agricultural economy in the province. Although slaughter cattle production increased substantially during the year the stabilization program was put in place, production has dropped from the 1982 level and in 1987 was in fact less than it had been in 1982. Exports of feeder cattle through the period have declined, but only in 1987 were feeder cattle exports less than 50 percent of marketings. Given the government incentives, the relative profitability of feedlot production, and the apparent availability of feeder cattle, one must conclude that Saskatchewan farmers are either not informed about the profit potential, simply not interested in increasing feedlot production, or are too uncertain about the future of the Saskatchewan Stabilization Board.

On the assumption that the problem is in the area of information availability, our specific recommendations are:

1. Poll farmers (at least current cow/calf and feedlot producers) to determine their (1) level of expertise and (2) level of interest in an expanded extension effort in the area of livestock production.

2. Develop an extension program (it could be tied to some of the Provincial Government's incentive programs or to SWP's feeder finance program) which satisfies the needs identified in (1) above.

3. Research the Western Canadian packing industry's apparent inability to be price competitive with primal cuts and carcasses delivered to California.

Our research indicated that over the past year, Canadian primal cuts and carcasses (originating in Saskatoon) were not price competitive with alternative U.S. supply sources c&f Los Angeles. Interviews with industry participants confirmed that this situation is not unique to Saskatoon; that Western Canadian packers have, in general, not been price competitive in the California market with either primals or carcasses. The reduction of tariffs resulting from the adoption of the FTA will not change the Canadian industry's competitive position in that regard substantially.

As U.S. imports into Eastern Canada become an increasingly important factor in that market (and in our view they will), Western Canadian packing firms will be forced to look to the Western U.S. as a market outlet. In order to compete effectively in that market, they will have to be price competitive with current suppliers.

Canadian labor rates and productivity have been blamed for much of the differential. It is apparent, from earlier research, that Canadian labor rates are higher than are U.S. rates. The situation will worsen as and if the Canadian Dollar strengthens.

The labor cost differential only goes part way in explaining the large beef price differential. Given that the Western Canadian industry is going to have to compete in the Western U.S. it is important that the reasons for its current inability to be price competitive be fully understood so that adjustments can be made. If the adjustments are not made, industry growth will be constrained. The implications for the production sector are obvious.

The price differentials may be a function of the fact that Eastern Canada (Montreal) has been one of the highest priced beef markets in North America, and except for the past few years, it has been the exclusive domain of the Western Packers. There has been relative little need or incentive to develop the U.S. market or become competitive on the basis of cost of slaughter and processing with the U.S. industry. Canadian packers may in fact be competitive on the basis of overall costs, but may have been reticent to forego the better margins which have been available in Montreal in order to develop the U.S. market. These questions and others need to be addressed in an objective, detailed manner.

4. **Industry incentive programs (both current programs and those which may be initiated in the future) should have as a priority, expansion of the U.S. market.**

Based on our view that the U.S. market will become more important in the future, new incentive programs at both the producer and processor levels should be directed toward the development of a market for Saskatchewan beef in the Western U.S. Current programs should be researched in order to determine ways in which they might be altered so as to recognize the priority which this market should be given. Any changes or new programs which might be considered would have to recognize the reality of the FTA agreement and the impact which the FTA might have on incentive programs.

5. Determine Saskatchewan's ability to compete with Alberta at the processing level given the recent grants and loan guarantees which have been offered to a number of processing firms by the Alberta Government.

Alberta is Saskatchewan's major competitor at both the production and processing level. We are confident that Saskatchewan producers can compete; we are not as sure about the ability of Saskatchewan's processing sector to compete. While competitiveness at the processing sector is important in terms of the province's ability to compete with U.S. suppliers, it is also important in terms of the provinces ability to compete with processors based in Alberta.

The Alberta government has recently made several announcements regarding grants and loan guarantees to companies in the meat slaughtering and processing business. These Alberta government grants, etc. may have an impact of Saskatchewan's processing sector's ability to be cost competitive with Alberta in the U.S. and other markets. The production sector will not be able to realize its potential unless the processing sector keeps pace.

1.0 INTRODUCTION

1.1 Background

Saskatchewan's agricultural economy has traditionally been based on export grain sales. The livestock sector's relative importance in the overall scene has fluctuated depending upon the price of grain. As grain prices have risen, more acres have been devoted to grain production.

There are varying predictions regarding the future direction and level of grain prices. Although the current drought in much of North America is having an affect in the short-term, the World's overall capacity to produce grain has increased. Even with the drought, world production for the current year will fall a small amount relative to long term averages. Normal rainfall levels in the next few years could result in a return to high levels of production which could result in a return to depressed grain prices.

In order to improve income, farmers have been forced to diversify. Given the land base and resources available in Saskatchewan, increased livestock production is an obvious and attractive diversification alternative.

A relatively high proportion of the cattle produced in Saskatchewan have historically been exported as feeder cattle. Saskatchewan has the potential to increase both its overall level of output and the value which is added to the product before it leaves the province. Additional feeding and processing within the province would be required in order for the province to realize its full potential.

In November, 1986, Saskatchewan Wheat Pool's delegates passed a resolution which stated " that Saskatchewan Wheat Pool undertake appropriate research into required policies and programs which will enhance the objective of soil conservation and land use management in a manner which stimulates commodity diversification, market opportunities and economic stability". In response to this resolution, an inter-divisional task force was formed. One of the task force's major initiatives has been to investigate the opportunities for a differentiated Saskatchewan beef product in Canada and the United States.

The project was divided into several phases. The first phase, a Preliminary Market Assessment, was completed in December of 1987 with the preparation of a report entitled

"An Investigation of the Marketing Opportunities for Product Differentiated Saskatchewan Beef". This study, completed internally by Saskatchewan Wheat Pool staff, involved a comprehensive review of the available literature regarding the opportunities and constraints to the production and marketing of a differentiated beef product in the North American market. The report recommended:

> "that Phase II of the study be undertaken utilizing external consultants under the direction of Saskatchewan Wheat Pool. The scope of the study would include in-depth consumer research in California relative to the market for Saskatchewan beef products, as well as the development of a strategic marketing plan for both the domestic and U.S. export market."[1]

In March of 1988, the Saskatchewan Wheat Pool followed that recommendation and commissioned the second phase of the study: "An Investigation of the Marketing Opportunities for Product Differentiated Saskatchewan Beef: A Detailed Market Analysis".

Funding for this study was provided by the Saskatchewan Wheat Pool and the Canada/Saskatchewan ERDA agreement.

1.2 Study Objectives

Based on the terms of reference, the detailed objectives of this study were outlined as follows:

1. In the Canadian and Southern California markets, determine the need for and the potential for differentiated beef products from Saskatchewan.
2. Determine Saskatchewan's present and potential ability to satisfy the requirements of the market.
3. Develop a strategic marketing plan whereby Saskatchewan will be able to capitalize on the market opportunities identified.

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[1] Saskatchewan Wheat Pool, *An Investigation of the Marketing Opportunities for Product Differentiated Saskatchewan Beef* - Preliminary Market Study, December, 1987.

1.3 Study Approach

In completing the study, the following activities were undertaken:

1. Literature (with particular emphasis on U.S. literature), relevant to the marketing of differentiated beef products was reviewed in detail. The information obtained provided a supplement to the information reviewed during the Phase I Study (An Investigation of the Marketing Opportunities for Product Differentiated Saskatchewan Beef) and provided a broad basis for the development of the questionnaires utilized in the California Consumer Survey.
2. Interviews were completed with selected packers, brokers, wholesalers, food service suppliers and retailers in Saskatchewan, Alberta, Ontario, Quebec, Vancouver and Los Angeles.
3. California consumers were surveyed in order to determine their attitudes and perceptions regarding beef generally and beef which might originate from Saskatchewan specifically. Three focus group sessions were conducted in conjunction with the telephone and store-exit surveys.
4. Saskatchewan beef industry participants and government representatives were interviewed in order to obtain data and determine industry attitudes toward enlargement and specialization of Saskatchewan's beef industry.

2.0 LITERATURE REVIEW

2.1 Beef Industry Trends

Production and Packing

At the beginning of 1988, the U.S. inventory of cattle and calves fell below 100 million head for the first time since 1961. Beef production will likely be down 4 to 5 percent in 1988 from the previous year. However, larger pork and poultry production will push total meat supplies to 222 pounds per capita in 1988, up from 217 pounds in 1987.[1]

The U.S. beef packing industry will continue to consolidate through the mid-1990's. Today there are four firms which control 65 percent of the market: IBP, Excel, ConAgra, and National. The factors influencing consolidation in the beef industry are as follows:

1. **Capital** - It takes a great deal of money to be in the beef packing industry and even more to make acquisitions. As a result, the big may continue to get bigger.

2. **Demand** - The demand for beef has decreased substantially, even as income has increased. In a sense, the beef industry has become one of "survival of the fittest".

3. **Added-Value Business** - As the food processing industry generally is moving from a commodity business to a value-added business, there is more potential to increase both margin and gross revenues. This is causing senior management to restructure and consolidate their business activities.

4. **Technology** - New technology will be important to both large and small businesses.

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[1] Economic Research Service, USDA, "Livestock and Poultry-Situation Outlook Report," February 1988.

Although the packing industry is consolidating, there will continue to be niches in the market where smaller companies can compete. To be effective, small companies will have to: (1) identify who the competition is now and will be in the next two years; (2) place top priority on marketing efforts; (3) determine the necessary technology that must be applied; and (4) determine the most profitable size for their operation.[1]

Marketing

The beef industry is beginning to target "active-life-style" and "health-oriented" consumers who account for 33 percent of the active food shoppers. These young affluent consumers say they do not eat a lot of meat because it is neither convenient nor good for them.

To combat this trend, the beef industry is taking a number of steps to promote beef in a less traditional manner. For example, the industry is encouraging people to increase the frequency of beef consumption, but consume smaller portions. To assist in this effort, the industry is trying to persuade restauranteurs to include smaller servings of beef in their menus. Change is also taking place at the retail level, where boneless beef is being offered with much of the fat trimmed away. The industry hopes that by promoting itself in this manner, younger, health-conscious consumers will recognize beef's place in a "light", healthy meal.[2]

The Hispanic population is also attracting the attention of the meat industry. This group has unique cultural needs that offer many opportunities to progressive marketers. Supermarkets such as Tianguis in Southern California have targeted the Hispanic population by promoting an open-air atmosphere, very familiar to Hispanics. Shoppers can select the beef they want and specify how they want it cut. Tianguis has had enormous success and plans to have 15 stores in operation by 1990.[3]

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[1] Helming, Bill, "What Drives Packing Industry Consolidation and What It Means," *The National Provisioner*, January 9, 1988, pp.12-14.

[2] Yannish, Donna Leight, "Meat Producers, Retailers Strive to Cut Sales Dip,"*Advertising Age*, September 19, 1985, pp. 30-31, 34.

[3] *Chain Store Age Executive*, "Bins Sharpens Tianguis' Cutting Edge," May 1987, pp.218-219.

Consumption

Per capita beef consumption in the U.S. remained constant at about 78 pounds from 1979 to 1986. Per capita expenditure in total dollars for beef increased by 7 dollars during the same period.

By 1985, beef's market share had slipped to 43 percent, the lowest since 1959. The dip in market share was reflected in the supermarket, where beef sales declined in 1985 for the first time as income levels rose.[1]

Why has there been such a drop in beef market share? Many experts both in and outside the industry have pondered the question. Three general theories have emerged.[2]

1. The Mature Market Hypothesis - This theory states that the meat industry has matured and any increase in consumption of beef would come at the expense of another meat.
2. Relative Price Effects - Relative price differences among beef, pork and poultry have been shown to be a major factor in the changing market shares of the three meats. It was estimated that changes in relative production costs and consequently market prices for beef, pork, and chicken, explained roughly 85 percent of the variation in consumption of the three meats during the period 1972-1984.
3. Changing Tastes and Preferences - Red meat consumption has declined due to consumer concern about animal fats and cholesterol. However, research in the professional economics literature has not tended to support this hypothesis. Shifts in consumption seem to be related most strongly to the relative price

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[1] Lee, Y.B., :The Battle for the Consumer Meat Dollar: Can We Improve the Beef Carcass to Increase Beef Demand," *1986 Beef Day*, Department of Animal Science, University of California at Davis, November 1986, p.53-64.

[2] Skaggs, Rhonda K., Dale Menkhaus, "Beef Consumption Issues and Trends," Department of Agricultural Economics, University of Wyoming, June 1986.

differences among the three meats. In fact, concern about the negative nutritional aspects of beef appears to have lost momentum since 1985.

There are some early signs that U.S. consumers, especially Californians, are rediscovering beef. For example, in 1985, beef was served in 87 percent of the homes in California, up from 83 percent in 1984 and 79 percent in 1983. At the same time, the frequency with which beef was served in California homes rose from 4.2 times in an average two-week period in 1984 to 4.6 times in 1985.

Virtually all perceptions about beef showed some improvement in 1986, with significant improvements occurring in perceptions that beef is good tasting, a good value for the money, and leaner than it used to be. However, California consumers tended to have somewhat less favorable perceptions about beef when compared to the U.S. as a whole, re-emphasizing the relatively more difficult problems facing the industry in California.[1]

Unfortunately, potential problems in the beef market are not limited to geographic areas. A slow growing American population will no longer lend itself to large beef market expansion as a result of population growth. As the American society ages, the needs of the elderly (such as portion control and meat tenderness) will need to be met.

It is not only the elderly who present special challenges. Health-minded consumers and those who lead active lifestyles make up approximately 50 percent of the population (33 percent in 1983). These groups consist of men and women who are concerned with the nutritional content of the food they eat and consider cholesterol and fat to be serious health hazards. Consequently, they may be less likely than others to include meat in a meal.[2]

In summary, several studies have shown that beef consumption has stabilized and even increased slightly in certain areas of the U.S. However, the slow growth and aging of the American population, combined with health concerns related to animal fats and cholesterol, will present problems and opportunities that will have to be addressed as the beef industry moves into the twenty-first century.

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[1] Anderson, June, "What's Cooking in Beef Marketing," *1986 Beef Day*, Department of Animal Science, University of California at Davis, November 1986, pp. 65-74.

[2] Food Marketing Institute, "Nutritional Content and Food Safety," *Trends: Consumer Attitudes and the Supermarket*, 1986, pp. 25-32.

2.2 Consumer Attitudes Toward Differentiated Beef Products

Lean Beef

According to a study done in 1986 by the University of Wyoming, there is potential for marketing a branded, less fat, fresh beef product. The researchers found that: (1) a majority of people (six out of ten) bought the lean beef product either exclusively or in addition to the control beef; (2) when judging leanness, consumers looked primarily at external fat and secondarily at seam or intramuscular fat; (3) claims made for the lean beef, namely low in fat and natural, stimulated a high trial rate; and, (4) consumers were ready to compromise or make adjustments on eating/taste requirements in favor of a product that is perceived to be better for their health than beef products currently available.[1]

In another study conducted by the Texas Agricultural Experiment Station, researchers found that although respondents were concerned about fat, 40 percent of them felt that all fats should be eaten as often as desired with no limitation. Although three out of four people surveyed were in favor of the nutritional labelling of beef, only 15 percent of those shoppers were buying less beef than they were three years ago because of health or diet considerations. The major cause of reduced beef purchases (61 percent) was high beef prices. Thirteen percent identified smaller family size as reason for their reduction in beef purchases.[2]

Results of surveys conducted in Florida were similar to those of the Texas survey. Florida researchers, however, were careful to point out that (1) the lean beef product appealed to a wide range of consumers in various socio-economic groups, and (2) households that had bought lean beef tended to consume more beef than those who did not buy lean beef. The Florida researchers felt these findings had wide applicability, since many Florida residents have "immigrated" from other parts of the U.S. and because consumers are relatively homogeneous with respect to preferences for many food products.[1]

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[1] Skaggs, Rhonda K., Dale Menkhaus, "Health Concerns and Beef-A Case Study in Marketing," Department of Agricultural Economics, University of Wyoming, 1986.

[2] Clarke, Neville P., "Consumer Attitudes Regarding Leanness in Beef, Animal Fats, and Beef Grading Systems, " The Texas Agricultural Experiment Station, Texas A & M University, September 1981.

Finally, even though these studies tend to show some degree of consumer interest in lean beef, the question of whether the consumer is willing to pay the price needed by producers to support such a program is yet to be answered.

Natural Beef

In a study conducted by the Ontario Ministry of Agriculture and Food (OMAF), consumer awareness and perceptions of "natural" beef were tested. Only 30 percent of the respondents said they had heard of natural beef; however, 77 percent of the respondents said they were from "very" to "quite" interested in buying "natural" beef. Unfortunately, many participants said that "natural" confirmed their worst fears about regular beef; that is, "non-natural" beef is contaminated.[2]

There are currently a number of people producing "natural" beef, however only two are enrolled in USDA's Federal State Inspection Service (FSIS) program which certifies that meat is free of residue and contamination. If a company is certified, a sticker is placed on the beef package which indicates that the meat is free of residues. Harris Ranch and High Enterprises are the only two beef producers enrolled in the program. Other beef producers, including Laxy J-4 and Coleman Natural Beef, Inc., feel the FSIS program is more trouble than it is worth.

In order to enter the FSIS certification program, a company must apply for registration and a USDA contingent is sent out to determine whether the operation qualifies. If it does, the company works out a production control plan which ensures the FSIS that the firm is going to control potential contaminants and other substances.

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[1] Degner, R.L., D.L. Dodson, P.H. Riddle, "Consumer Acceptance of Lean Fed Beef in Florida," Florida Agricultural Market Research Center, University of Florida, September 1984.

[2] *The National Provisioner*, "Natural Beef Gets Critical Assessment at BIC (Beef Information Centre) Seminar," February 13, 1988, pp.9-13. The OMAF study is reviewed in detail at the end of this section.

Technically, the terms "organic" and "chemical-free" are not allowed because there are no standards for them, but USDA (Standards and Labelling) considers their usage on a case-by case basis. If a company wishes to make such claims, the firm enrolls in the "Memorandum of Understanding" program. Companies that do not enlist are required to back up their claims with a letter of testimony, stating that the animals have not been fed subtherapeutic doses of antibiotics, implanted with hormones, and that the feed they eat and the land on which the animals graze is free from contaminants[1].

Primals

Results of a study by researchers at Washington State University suggested that different consumer demand responses existed for beef when it was disaggregated into products at the wholesale level. For example, demand for beef loin and rib was found to be five times more responsive to a direct price change than the demand for beef chuck.

The demand for beef primals was also dependent upon the relative prices of competing meat products. Significant price elasticities were found for nearly all beef primals. The results suggest that the beef industry should base part of its marketing effort on the prices of alternative sources of animal protein.

Income elasticities were also different for beef primals. For example, an increase in consumer income was found to increase the consumption of round, loin, and rib beef products; while a decrease in income was found to increase the consumption of ground beef.[2]

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[1] Thompson, Kevin, "Chemical Free Meat," *Meat Industry*, January 1986, pp.20-23.

[2] Lutz, Steven M., Vicki A. McCracken, Raymond J. Folwell, David W. Price, " Tobit Analysis of Consumer Demand for Primal Beef Products: Implications for the Beef Industry," Washington State University, Selected paper, AAEA Annual Meeting, 1986.

Branded Beef

Some industry observers believe that branded, fresh beef products will be the key to selling more beef in the future. The retail-level brand can be a way to build consumer confidence and loyalty, while distinguishing oneself from USDA-graded beef. The following branded beef products have emerged in the U.S. in recent years.

1. Ultra Beef is a natural/lite beef product which resulted from the concerted efforts of a group of cattle ranchers in Montana and South Dakota, a genetics company, and Dubuque Packing Co.[1]

2. California's Harris Ranch is promoting its brand-name beef with Del Pero Mondon (DPM), a Californian purveyor. DPM's customers were discontent because the parameters of USDA Choice were being too broadly interpreted. Each company's name is represented in the label, and they believe they are now better able to guarantee more consistent, high quality beef.[2]

3. Kroger Co. has had positive response to its branded beef product. Volume of the Excel vacuum-packed branded beef has been so good that at some of the stores where Kroger tested the product, it accounts for 40-50 percent of beef sales, a percentage equal to that for store-cut beef. According to William Parker, V.P. the big advantage of the branded, case-ready line for the retailer is consistency of trim.[3]

4. Maverick Ranch Association in Denver, Colorado, is marketing beef produced under contract by designated ranchers. The cattle are fed and slaughtered

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[1] Parsons, Heidi, "A Natural partnership-Natural Lite Beef Weathers an Early Storm," *Meat Processing*, May 1987, pp.64-66.

[2] Bischoff, Juliet, "Fresh Branded Beef," *Meat Industry*, September 1986, pp. 39,45.

[3] Malko, Constance, "Branded Meat Sales Test Response Cheer Kroger," *Supermarket News*, April 6, 1987, p. 1.

according to Association specifications and the beef is sold to retailers under the XL Bar "Natural" and "Naturalite" labels.[1]

5. Chi Lite Beef has entered the branded beef market with its "Key-Lite" label, along with Wyoming Lean and Swift Independent Packing Co. (Lite Weight Beef).[2]

6. Coleman is the largest producer of "natural beef" in the U.S. To guarantee the difference between Coleman Natural Beef and the competition, Mel Coleman has structured his operation to monitor cattle "from conception to consumption," so that at no point in the 2 1/2 year cycle can cattle be exposed to growth hormones, antibiotics, feed additives, or pesticides. Coleman's is positioning itself as "100 percent Rocky Mountain Pure," and the promotion is aimed at health-conscious people willing to pay a 25 percent premium.[3]

2.3 Canadian Consumer Attitudes Research

The most recent and most comprehensive research into consumer attitudes in Canada was completed by the Ontario Ministry of Food and Agriculture in 1987. A large consumer survey (800 personal interviews) was completed (across Canada) with a random selection of adult consumers[4]. The broad objective of the study was to determine consumer attitudes and their awareness about beef and beef quality.

Major Findings

- Francophones had a better image of beef quality than did Anglophones.
- Quality perceptions increased with age of the consumer, beef usage and the use of independent butcher shops.

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[1] Bischoff, Juliet, "Three Creek Ranch: Cattlemen Decide To Retail For Themselves," *Meat and Poultry*, December 1986, p. 20.

[2] Thompson, Kevin, "Modern Beef," *Meat Industry*, January 1986, pp.19.

[3] Everett, Martin, "How Coleman Sells the Sizzle, "*Sales and Marketing Management*, August 1987, pp.28-31.

[4] Ontario Ministry of Food and Agriculture, Actionable Market Research Ltd., *Beef Quality and New Product Opportunities - A Canadian Perspective*, October, 1987.

- The perception was that beef quality has deteriorated over the past 10 years. The basis on which this perception was founded was often not factual. Consumers did not seem to have enough information on which to base a decision.
- Fat, color, freshness, and value for price were the major purchasing criteria.
- The general perception was that beef lacks tenderness. There was some difficulty determining the basis on which tenderness was evaluated.
- A substantial number of consumers had a negative perception about the method in which beef was produced (chemicals, hormones, force feeding, etc.) and the way in which it was marketed (lighting, additives, etc.).
- Excess external fat was unacceptable but trimming to less than 1/4 inch was also unacceptable.
- Less than 50 percent of consumers were aware of "marbling", its meaning or the effect which marbling had on beef. When the term was explained, most consumers indicated that they preferred some marbling.
- The majority of consumers were aware of aging (less in Quebec than elsewhere) and understood its impact on beef quality.
- More than half of the consumers polled, indicated that they were prepared to pay up to 10 percent more for well-marbled and well-aged beef. Francophones and supermarket shoppers were more price sensitive.
- Vacuum packaged beef was preferred by the majority of consumers with the only concern being the color of the meat. Once again, after the situation was explained; that is, that the beef regains its "bloom" after being removed from the package, the concern disappeared.
- There was an interest in gas-flush packaging, but some consumers rejected it on the basis that it was too bulky.
- Branding a gas flush or vacuum packaged product did not increase consumer interest.
- The average consumer had perception problems with:
    - frozen beef - concern about the quality and the fact that once thawed it had to be used.
    - inconsistent quality of beef.
    - beef packaging was not freezer ready.
    - ground beef was too fat and the percentage of fat was not identified on the package.

  - color - it changed over time and is different from the outside of the cut to the inside.
- Interest in "new" product concepts was greatest for fresh, unprepared products and those which featured roasts and steaks.
- The majority of consumers who had cooked beef in a microwave oven were satisfied with the final product.

Conclusions of OMAF Study

- The research indicates that there are a large number of consumers who feel that the quality of beef (1) is inconsistent, and (2) has declined. Those who believe that quality has declined argue that the products which they are currently offered are less tender, less flavourful and fatter.

- Tenderness appears to be a key issue because it is on the basis of tenderness that most consumers ultimately judge the quality of a piece of beef. It follows that consideration should be given to delivering a more tender product. Of the options available, aging and mechanical tenderizing appear to be the most attractive.

- Aging seems to offer a good opportunity in that most consumers understand both the term and the benefits associated with aging. A majority of consumers indicated a preparedness to pay a premium for an aged product. Aging would also help to overcome some of the concerns with product inconsistency.

- In the area of flavour, the study suggested that the majority of consumers are not well informed with regard to the criteria on which beef quality should be evaluated. Educating the consumer with regard to the meaning of and role in which marbling plays in beef quality could be counter-productive given the current trend and attitudes against the consumption of animal fats. With this in mind, there appear to be market opportunities in the areas of: (1) more service at the meat counter; (2) branded products; and, (3) a section in the meat counter for a "Cadillac" product (well aged and well marbled).

- Opportunities for new products do exist (particularly among convenience-oriented consumers). In the area of product development, priority should be given to fresh product which is relatively conventional and price competitive with product which is currently available.

- There does exist a viable interest in a "natural" beef product. The beef industry should be putting at least some effort into ensuring consumer confidence in the safety of the existing supply and in doing so, prevent the entry of "natural" product into the marketplace from further eroding confidence in conventional beef.

- Consideration should be given to the wider use of on-package stickers which provide information on cooking instructions, fat and calorie content, etc.

2.4 Implications for Marketing Differentiated Beef Products

1. There is a strong, irreversible trend toward the consumption of leaner beef products in Canada and the U.S. This trend is driven by health and nutrition concerns about levels of animal fats and cholesterol in the diet. In Canada, the trend was addressed (and may have in fact been led) by a change in the grading system in 1972. U.S. packers and retailers are responding to this change by marketing beef products trimmed to a maximum of one-quarter inch of external fat. Producers of leaner beef based upon cattle genetics and feeding programs (Western Canadians), could obtain some advantage by documenting the lower fat content of their products to differentiate them from the overfat products with external fat trimmed.

2. A growing number of producers are offering "natural" beef products to consumers in the U.S. and Canada. A few producer programs are certified by USDA; most have opted to proceed without certification. Canada has no certification standard or programs. The majority of consumers in the U.S. are not aware of the existence of "natural" beef, and those made aware of it have tended to become more concerned about hormone and chemical levels in "regular" beef. Thus far the volume of natural beef produced and sold in both countries has been very limited.

3. In the U.S., several suppliers of branded beef are attempting to distinguish their products from beef now packaged at retail with a chain store label and/or USDA grade. To date however, the volume of branded beef has been limited by chain store resistance and lack of promotional support by the producers and packers.

Retailers indicated that only a major move toward case-ready packaging in packer-owned plants accompanied by an advertising program, would substantially increase the sales volume of supplier-branded beef.

4. Research suggests that most U.S. and Canadian consumers will not pay large premiums for branded, natural or lean-produced beef. Coleman Natural Beef is targeting health-conscious consumers willing to pay a 25 percent premium at retail, however, the total size of the U.S.-wide program (about 10,000 head per year), and the fact that several major retailers have tried their products and discontinued them, indicates the likely consumer resistance to differentiated beef sold at a premium.

5. Beef will continue to receive strong competition from poultry, pork, and seafood for a share of the consumer's food dollar in Canada and the U.S. Aggressive marketing programs and competitive pricing will be required to meet this competition.

6. While IBP, ConAgra, and Excel will continue to consolidate their share of total beef packing in North America, market opportunities will continue to exist for smaller, efficient companies with innovative programs serving market niches with a price competitive, high quality product supported by an appropriate promotional program.

3.0 TRADE POLICY ISSUES

Saskatchewan's ability to export cattle and/or beef to the United States over the long-term will be directly related to its ability to compete on a price and quality basis with other competitors in the marketplace. Tables 3.1 and 3.2 outline Canadian exports and imports to and from the U.S. between the years 1981 and 1987. Canada has traditionally been a net exporter of both cattle and beef.

Besides the specific cost factors which directly impact relative comparative advantage, there are several policy issues which have and will contribute to or detract from Canada's competitive position. The more important of these factors are discussed below.

3.1. Canada - U.S. Free Trade Agreement

At the current time the most public policy issue is the Canada-U.S. Free Trade Agreement (FTA). The FTA addresses a number of the tariff and non-tariff issues which have the potential to impact negatively upon the flow of cattle and beef between the two countries.

Tariff rates for the livestock and beef sectors have been minimal (1% to 2%) in recent years and non-tariff barriers have tended to be more a costly nuisance than a real deterrent to trade. Passage of the FTA will increase the livestock and beef trade between the two countries to the extent that tariff and (particularly) non-tariff barriers have deterred product flows in the past.

Key Elements of the Free Trade Agreement

The sections in the agreement which relate specifically to the movement of cattle and beef are outlined below. Both countries have agreed to:[1]

- phase out tariffs over a ten year period;
- exempt each other from their respective meat import laws;
- an open border for meat inspection;
- regional recognition of disease-free areas;

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[1] Agriculture Canada, *The Canada-U.S. Free Trade Agreement and Agriculture: An Assessment*

TABLE 3.1

CANADIAN EXPORTS TO U.S.

Year	1981	1982	1983	1984	1985	1986	1987 (est)
Cattle							
	----Number of Head----						
Slaughter Cattle	93,161	149,231	161,915	216,050	157,257	156,590	179,873
Feeder Cattle	43,000	83,000	13,000	16,000	109,000	5,500	3,500
Total Cattle	136,161	232,231	174,915	232,050	266,257	162,090	183,373
Beef							
	----Thousand Pounds----						
Carcass Beef	23,947	29,095	35,115	41,575	64,554	55,874	49,920
Cuts Bone In	271	475	227	976	1,760	4,761	7,010
Cuts Boneless	58,696	65,040	62,940	88,823	86,844	64,504	56,872
Trimmings	37,577	30,356	30,452	38,224	43,492	44,182	35,029
Other	1,254	1,139	2,897	2,935	3,597	3,263	3,748
Total Beef	121,745	126,105	131,631	172,533	200,247	172,584	152,579

Source: Agriculture Canada, *Livestock Market Review, 1981-1987*

TABLE 3.2

CANADIAN IMPORTS FROM U.S.

Year	1981	1982	1983	1984	1985	1986	1987 (est)
Cattle							
	----Number of Head----						
Slaughter Cattle	152,988	71,450	70,129	19,475	46,825	49,244	60,433
Feeder Cattle						12,456	13,826
Total Cattle	152,988	71,450	70,129	19,475	46,825	61,700	74,259
Beef							
	----Thousand Pounds----						
Carcass Beef	693	717	2,295	2,532	2,135	868	2,707
Cuts Bone In	1,585	1,342	1,370	2,996	1,992	2,184	3,602
Cuts Boneless	13,330	13,596	16,463	33,483	32,755	23,736	45,604
Other	83	141	130	372	806	11,060	3,862
Total Beef	15,691	15,796	20,258	39,383	37,688	37,848	55,775

Source: Agriculture Canada, *Livestock Market Review, 1981-1987*

- establish equivalent accreditation procedures for inspection systems and inspectors;
- accept the equivalence of export certificates issued by private veterinarians accredited by the agriculture departments in respective countries;
- work towards eliminating U.S. state restrictions on importation of animals, embryos, animal products and by-products; and,
- accept equivalency recognition for veterinary drugs.

Tariff Barriers

At the current time, import tariffs on beef and live cattle are nominally identical in both Canada and the United States; that is, $0.01 per lb. on live cattle and $0.02 per lb. on beef.[1]

Although not onerous, the current tariff regime has been a disadvantage to Canadian exporters in the following ways:

1. The fact that Canadian exports have historically been products of lesser value has disadvantaged Canadian exporters to the extent that a $0.02 tariff levied on lower priced products is a relatively higher percentage of per unit product value than the same $0.02 tariff levied on higher priced products.
2. The depressed value of the Canadian dollar has meant that, although the tariffs are nominally identical, the U.S. tariff, expressed in Canadian dollars has been between 20 percent and 30 percent higher that the equivalent Canadian tariff.

Because the FTA provides for the phasing out of tariffs in both countries over a ten year period, it is difficult to express the impacts on Saskatchewan in specific dollar values on an annual basis except to the extent that total elimination of the current

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[1] There is a difference on the tariff levied on retail-ready cuts ($0.02 per lb. in Canada and 4% of the value in the United States) but this has not created a significant problem to Canadian exporters since little product has moved in this form.

U.S. tariffs would amount to increased revenues of approximately Cdn. $500,000 annually[1] assuming current export levels.

Non-tariff Barriers

Non-tariff barriers, although not significant historically, have had more potential to impact trade than have tariff barriers. Acceptance of the FTA will ensure that Canadian access to the U.S. market for cattle and beef is secure and predictable; that is, elimination of non-tariff barriers should reduce the incidence of short-term disruptions which have occured from time to time. For example, although the U.S. meat import law has only affected Canada twice in the past seven years, exemption under the FTA will ensure that the Law does not impact trade flows in the future.[2].

Impacts of FTA Adoption

Agriculture Canada's assessment of the FTA[3] identifies two major impacts to the Canadian livestock and beef sectors:

1. Increased export market opportunities for high quality finished cattle for slaughter, and for high quality beef; and,
2. Some possible opportunities for increased imports of feeder cattle to Canadian feedlots, which will improve capacity utilization and create a larger domestic market for feed grains.

The positive impacts on Canada's livestock and beef sectors will only be realized to the extent that the Canadian industry's net competitive position (improved competitiveness of the Canadian industry vis-a-vis the U.S. market minus improved competitiveness of the U.S. industry vis-a-vis the Canadian market) will be enhanced by the FTA. Cost competitiveness will become a relatively more important factor in determining trade flows than was the case prior to the FTA.

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[1] This estimate was calculated by multiplying the average exports of approximately 40,000 (head equivalent) by an average tariff of US $10 (Cdn $12) per head.

[2] We view the possibility of imports to the U.S. from other countries creating a surplus in the U.S. which could then be moved into Canada and thereby impact the Canadian industry negatively as extremely unlikely for several reasons: (1) The U.S. Meat Import Law will still apply to other countries; (2) Action of the type described would be outside the spirit of the FTA and would undoubtedly result in an immediate protest by Canadian authorities; and, (3) The U.S. has traditionally been a net importer of beef.

[3] Agriculture Canada, *The Canada-U.S. Free Trade Agreement and Agriculture: An Assessment*

With regard to non-tariff barriers, the net impact of the reduction in barriers will also be positive for the Canadian industry, more as a result of the fact that non-tariff barriers which were planned by the U.S. will not be imposed, rather than the fact that the non-tariff barriers which are currently in place will be removed (See Impacts of FTA Rejection).

In summary, the FTA will tend to promote an increase in the north-south movement of both cattle and beef, again more as a result of the removal of non-tariff barriers rather than the removal of tariff barriers and only to the extent that the affected sectors in each country become more competitive because of the FTA. Imports of "no-roll"[1] U.S. beef into Canada are already well established and will become slightly more competitive because of the FTA. Exports of high quality beef (cuts or carcasses) to the U.S. are not well established but will become somewhat more competitive because of the FTA. The reduction of non-tariff barriers, particularly as they relate to health inspection regulations will make U.S. feeder cattle more accessible to Canadian feeders and may result in an increased flow of feeder cattle into Canada.

As outlined above, adoption of the FTA will not have a dramatic impact on the net competitive position of the Canadian production and processing sectors. On balance, it will likely improve the relative position of the production sector slightly and disadvantage the relative position of the processing sector slightly. The production sector will have an opportunity to build upon its improved competitive position (because of tariff reduction). On the other hand, the processing sector will have to implement measures which will improve its cost competitiveness position or subject itself to the risk of further rationalization.

The FTA should enhance the opportunity for the Canadian processing sector to improve and increase its profile in the U.S. marketplace. Whether or not the industry will be able to take advantage of the opportunities which will become available will depend in large part upon whether or not the industry is able to become more cost competitive. The U.S. currently has some very large, high throughput plants which enjoy economies of scale not available to Canadian processors. With the FTA and the resulting opportunity for access to a much larger market, Canadian companies should be in a position to develop larger scale plants and thereby take advantage of some economies available in a larger plant. The FTA may provide a lever for Canadian processors to utilize in their attempt to reduce labor costs and increase labor productivity and thereby become more competitive. The potential benefit in Western Canada will be realized, only to the extent that the Western Canadian industry can be cost competitive.

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[1] U.S. no-roll is the term used by the trade to identify ungraded U.S. product.

On the basis of the above (and the price comparisons developed in Section 8), we tend to agree with Messrs. Kerr and Cullen[1] that the long-term expansion in the Western Canadian livestock sector resulting **directly** from the FTA will be in the order of 5 percent per annum. The proportional expansion in Saskatchewan will likely be slightly higher because the current Saskatchewan industry is smaller and relatively immature (compared to the Alberta industry). A growth rate of 5 percent per annum would translate into approximately 27 million in additional sales (all sector) in Saskatchewan. A proportionally higher expansion for example 7 to 8 percent, would translate into an increase in sales of between 35 and 40 million.

While we agree with many of the observations and conclusions drawn by Deloitte Haskins & Sells[2] in their study undertaken for the Prairie Pools Inc. in 1985, we are of the view that their projections with regard to expansion of the Western Canadian livestock and beef industry (15% - 20%) were somewhat optimistic. In their entirety (based on the fact that they have been reasonably executed by administrative authorities), tariff and non-tariff barriers have not been a major impediment to cattle and beef trade between Western Canada and the U.S. Elimination of the barriers will have a positive, but not dramatic impact on the trade in cattle and beef between Canada and the U.S.

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[1] Kerr, W.A., S.E. Cullen and M.F. Sommerville, *Free Trade and the Western Canadian Livestock Industry*, Agriculture Canada 1986 Working Paper, University of Calgary, 1986.

[2] Deloitte Haskins & Sells Associates, *Canadian Agricultural Trade Issues, Volume 1: Free Trade Wiith the United States*, July, 1985.

Impacts of FTA Rejection

As stated above, the positive impacts expected by the Canadian industry as a result of the FTA are, to a large extent, a function of the lack of imposition of non tariff barriers which were planned by the U.S. as much as they are a function of the barriers which will be removed because of the FTA.

The Canadian industry will not return to the status quo if the FTA is rejected in that the U.S. has adopted a new inspection system which would apply to Canadian imports. This new inspection system, if implemented, would increase costs (and thereby erode the competitive position) of Canadian exporters by increasing the mileage, the labor and the down-time associated with off-loading of goods at designated border points.

An additional risk associated with a rejection of the FTA is the possibility that, given the protectionist sentiment in the U.S., it is possible that trade barriers could be applied in an unreasonable manner in the future.

Summary - Canada - U.S. Free Trade Agreement

In summary, the impact on Saskatchewan resulting from adoption of the Free Trade Agreement are likely to be the following:

- Increased (concurrent with and proportional to the phased decrease in tariffs) revenues from the export of slaughter and beef due to the reduction in U.S. import duties.

- Marginally lower revenues from feeder cattle sold to Eastern Canada as the import of feeder cattle into Ontario from the U.S. will also become duty free.

- In the longer term, the Free Trade Agreement should lead to increased fattening and slaughter (assuming cost competitiveness) in Western Canada and increased shipment of beef to the Western United States. The Western U.S. (Los Angeles) beef market is very sophisticated and price competitive. Although there has been some marketing effort in recent years (and some significant success in the pork industry), expansion into the California beef market will require a strong commitment from the Canadian packing industry to (1) determine, and (2) adapt to the realities of the California beef market.

3.2. Grading

Beef grading is not addressed in the Free Trade Agreement. Working groups involving representatives from both governments will be considering the reciprocal beef grading issue when the Agreement is finalized. Agriculture Canada is currently working with the U.S.D.A. in an effort to determine the correlation (if there is any) between U.S. and Canadian grades. Three thousand carcasses will be graded by graders from both countries and the data summarized to determine the extent to which equivalency recognition might be possible. Equivalency recognition of the grading systems in the two countries is viewed by some as a short-term compromise, and possibly a first step toward reciprocal beef grading.

At the present time, there exists an inconsistency in the Canadian beef regulations which is felt by some industry participants to disadvantage the Canadian industry significantly. Canadian regulations state that beef which is slaughtered in Canada, but not graded can not move across provincial borders (either inter-provincially or for export). At the same time, U.S. no-roll product (beef which is not graded) can be imported into the country. Canada Packers estimates the current Canadian importation of no-roll product to be approximately 1 million pounds per week.[1]

The controversy is centred around quality. Theoretically, a U.S. packer could be boxing "off-grades" for export to Canada and representing it as high-quality product (Canadian A grade equivalent). The impact on the Canadian industry would be twofold: (1) Canadian packers would be unable to compete because of the fact that their costs of purchasing livestock would be significantly higher; and (2), the long-term implications of misrepresenting a high quality product in the Canadian market could result in a further decrease in consumption. To date, no research has been undertaken to quantify the impacts of this situation.

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[1] Canadian Cattlemen, August, 1988, p. 6.

At the wholesale level, several meat packing companies have become involved in the "Boxed Beef Grade Monitoring Program". This program, administered by Canada Agriculture's Food Production and Inspection Branch was initiated at the request of the Canadian Meat Council. It is an attempt by meat packers to differentiate graded Canadian product from U.S. no-roll. The program provides for the labeling (and thereby certification) of boxes and/or vacuum packaged primal and subprimal cuts as containing Canada grade A product.

3.3 Exchange Rates

Exchange rate fluctuations have had a substantial impact upon the relative competitiveness of the Western Canadian industry during the past 10-15 years. The dollar has moved from above par, to U.S.$ 0.69 and back to the current level of approximately U.S.$ 0.82. As the Canadian dollar moved from par in 1976, to $0.69, the Western Canadian livestock industry became substantially more cost competitive. However, as the Canadian dollar has moved back to approximately U.S.$ 0.82 over the past two years, the Western Canadian livestock industry has become relatively less competitive. Exchange rate movements have had more impact (and may have larger impact in the future) upon the competitiveness of the Canadian industry than have import duties levied by the U.S. Government.

The following factors will impact exchange rate movements in the future:

- The Free Trade Agreement - It is generally accepted that the adoption of the FTA will result in an increase in the value of the Canadian Dollar, although it appears that a major portion of the adjustment may have already taken place.[1] A rejection of the FTA would likely result in a reduction in the value of the Canadian Dollar.

- Relative rates of inflation in Canada and the U.S. - The current rate of inflation in Canada, which is somewhat lower than that in the U.S., has resulted in an increase in the value of the Canadian Dollar. In general, inflation rates in the two countries have moved in concert.

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[1] John Turner's announcement in July of 1988 regarding Liberal intentions with respect to the FTA resulted in an immediate drop of approximately $0.012 in the value of the Canadian Dollar relative to its U.S. counterpart.

- Government budget deficits - Both Canada and the U.S. are running large budget deficits although Canada's deficit is larger as a proportion of GNP than is that in the U.S. A large budget deficit generally weakens the currency over the long-term.

- Trade balance - While the U.S. is currently running a visible trade deficit and an overall current account deficit, Canada is showing a positive trade balance and a much smaller overall current account deficit (as a percentage of GNP). This is a positive factor with respect to the value of the Canadian Dollar.

- Relative competitiveness - The downward adjustment in the Canadian Dollar over the past 10 years has, in a general way, made the Canadian economy more competitive relative to the U.S. Due to its smaller population, and thereby smaller domestic market, it is not possible for Canada to attain the economies of scale available to the U.S. economy, except in those industries where Canadians can develop export markets.

- Political climate - Regardless of the reality, the business community considers a "right-of-centre" (real or perceived) government as being a positive factor with regard to a country's economy (and by implication, its currency).

- Interest rates - The level of interest rates in each country relative to those in the other is an important factor with regard to the value of the Canadian Dollar in the short term. While interest rates in Canada and the U.S. have tended to move in tandem with Canadian rates generally somewhat higher, the current situation; that is, the Canada-U.S. prime rate differential much greater than the historical norm, tends to increase artificially the value of the Canadian currency.

All of the above factors have an impact on the value of the Canadian Dollar relative to its U.S. counterpart and for that reason it is difficult, if not impossible to predict accurately the value of the currency into the future.

In November of 1987, Peat Marwick[1] surveyed individuals responsible for developing economic forecasts and investment policies at a number of major financial institutions in Canada. They were asked questions about their expectations regarding a number of economic factors. The organizations participating in the survey included chartered banks, insurance companies, investment managers, trust companies and a public utility. The results of the survey are outlined in Table 3.3.

With respect to interest rates, differences between the highest and the lowest predictions were 5 points in the short term, 9 points in the medium term and 15 points in the long term. The average of eighteen responses regarding exchange rate expectations in the short term was U.S. $0.76. The fact that the current level is approximately U.S.$ 0.82 (9 months after the survey) illustrates the difficulty associated with exchange rate prediction.

3.4 Transportation of Regulated and Unregulated Products

A substantial quantity of produce (vegetables) is moved annually from California to Canada, and the market for Canadian meat and meat products is beginning to open up on the Pacific Coast. As both products (vegetables and meat) utilize the same type of refrigerated equipment, a backhaul of one of these products can generate substantial savings for the shipper, the buyer, or both.

Currently, transportation regulations are a provincial responsibility in Canada and a Federal responsibility in the United States. Freight deregulation in the United States in recent years has resulted in a much more flexible freight market and lower freight rates. Freight deregulation has not yet occurred in Canada to the same extent; however, the recent passage of the new National Transportation Act has initiated a process similar to that which has taken place in the U.S. One major change brought about by the new legislation is that whereas, prior to the passage of the new act, a prospective licencee had to prove that his entry into the trucking business would not materially harm the existing licencees, the onus has now shifted to the existing licencees. In order for an application to be rejected, existing licencees must now prove that the new entrant will materially impact their business. As a consequence, entry barriers have been reduced substantially.

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[1] Peat Marwick, *The 1988 Survey of Economic Expectations*, November, 1987.

TABLE 3.3

SURVEY OF EXPECTATIONS - CANADIAN DOLLAR (U.S.)

Short Term 1988	
Number of Respondents	18
Lowest	74.1
Median	75.9
Highest	79.0
Medium 1989 - 1993	
Number of Respondents	14
Lowest	73.0
Median	77.0
Highest	82.0
Long term 1994 - 2003	
Number of Respondents	14
Lowest	70.0
Median	80.0
Highest	85.0

Source: Peat Marwick, *The 1988 Survey of Economic Expectations*, November, 1987

At the current time, any American or Canadian trucker can pick up goods in the United States for shipment to Canada. The only regulations in force in the United States (International Carrier Confederation) relate to insurance and safety of the vehicle and/or driver but do involve any other restrictions. Any additional permits which may be required tend to be available on a routine basis. Although Canada's deregulation has not yet advanced to the same state, it appears likely to move in the same direction in the near future.

Because beef is designated as a regulated product in Saskatchewan, American truckers who wish to backhaul meat and meat products from Saskatchewan to the United States require the support of a local trucking company (Saskatchewan-based), before they can apply for a permit. To avoid going through this routine, a number of American trucking companies have established "contracts" with Western Canadian companies. The savings which result are divided between the Canadian and American carriers. Saskatchewan truckers, on the other hand, can carry meat and meat products from Saskatchewan to the United States and return with a backhaul, since vegetables are a "free" commodity and therefore not subject to regulation. The trucking industry in both countries appears to have "adapted" to the regulations.

4.0 CANADIAN INDUSTRY ANALYSIS

Western Canada, a beef-surplus region, has traditionally looked to Eastern Canada as its major "export" market, with Montreal which is located in a beef-deficit region, being the major market for the Western Canadian surplus. In recent years there has been increased north-south movement of product. In the West, the majority of the north-south trade has been in the form of live cattle. In Eastern Canada, the south-north trade has increasingly been in the form of "no-roll" U.S. cuts. U.S. no-roll cuts have become a significant part of the beef trade in Eastern Canada due to the fact that they have been priced very competitively with "comparable" Canadian product[1].

In Western Canada, relatively cheap feed grains combined with relatively high cattle prices have created a situation where it has been profitable for feeders to carry their cattle to heavier weights. Heavier cattle means fatter cattle; that is, cattle which may be undesirable by Canadian grading standards because of the additional external fat on the carcass. Because of the large discounts applied against over-fat carcasses in Canada, many of these fatter cattle have been exported in live form to slaughtering plants in the Northwestern United States. These same cattle, which attract significant discounts in Canada, may attract price premiums in the United States if they display enough marbling to make the U.S.D.A. Choice grade. Cattle of Canadian origin have, at times, been a significant part of the slaughter in both the Washington Beef plant and the IBP plant in the State of Washington. Both plants expect between 25 percent and 30 percent of their kill to be Canadian cattle.

4.1 Structure

Ontario has traditionally produced approximately the same amount of beef as it has consumed. Ontario kills have declined in the past few years, in part because of the fact that fewer Western calves have moved into Ontario feedlots. Current Ontario kills are approximately 15,000 head per week which is a decrease of 5 percent from the same time last year.

Quebec imports between 70 and 80 percent of its beef requirement (industry interviews). Western Canada has traditionally been and is currently the major supply source, but the pattern is changing as U.S. no-roll product becomes a larger factor in the market.

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[1] See Section 3.2 Grading.

Federally inspected slaughter in British Columbia has averaged just over 1600 per week in the past five years. Alberta has been the traditional source of product "imported" into B.C., but United States product has been imported in increasing amounts in the past few years.

Western Canadian Packers

Federally inspected packing plants in Saskatchewan and Alberta account for between 50 percent and 55 percent of Canada's beef cattle slaughter with Alberta's average at slightly over 40 percent and Saskatchewan's at slightly over 10 percent. J & L Meats, Intercontinental Packers and Kohlers account for approximately 75 percent of the federally inspected slaughter in British Columbia. They also handle product which is slaughtered outside the province.

From our discussions with industry and government representatives, we have developed estimates of single shift slaughter capacities of the federally inspected plants in Saskatchewan and Alberta. These estimates are outlined in Table 4.1.

The unknown in the Western Canadian packing industry is the impact which the new Cargill plant at High River, destined to open in June of 1989, will have on the industry. From our analysis of the data and our discussions with industry participants at all levels, we propose the following as likely impacts of Cargill's entry into the market.

Short to medium term:

- The presence of Cargill buyers in the market will put some upward pressure on slaughter cattle prices in the short to medium term due to increased competition in the marketplace resulting from the entry of another plant.

- There will be some degree of vertical integration, through either contractual arrangements or packing companies actually feeding cattle themselves, as the companies make an effort to ensure adequate kill levels. Representatives from several of the existing plants have already been actively soliciting contractual arrangements with feeders.

TABLE 4.1

ESTIMATED SINGLE-SHIFT SLAUGHTER CAPACITIES OF SASKATCHEWAN AND ALBERTA FEDERALLY INSPECTED BEEF PLANTS

Company	Location	One-Shift Capacity (head)	Weekly Capacity (head)	Annual Capacity (head)
Saskatchewan				
Canada Packers	Moose Jaw	600	3,000	156,000
Intercontinental Packers	Saskatoon	500	2,500	130,000
Total-Saskatchewan		1,100	5,500	286,000
Alberta				
Canada Dressed Meats	Lethbridge	450	2,250	117,000
Canada Packers	Lethbridge	750	3,750	195,000[1]
Centenniel Packers	Calgary	550	2,750	143,000
X-L Packers	Calgary	1,000	5,000	260,000
Lakeside Packers	Brooks	1,000	5,000	260,000
Canada Packers	Red Deer	600	3,000	156,000
Gainers	Edmonton	250	1,250	65,000
Cargill (Excel)	*High River*	*1,100*	*5,500*	*286,000*[2]
Total-Alberta Currently		4,600	23,000	1,196,000
Total-Alberta with Cargill		5,700	28,500	1,482,000

Source: Interviews with industy and government representatives, July, 1988

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[1] Canada Packers owns two plants in Lethbridge but only one is operating at the current time. The plant which is closed has capacity estimated at between 2,000 and 2,500 per week.

[2] The Cargill Plant at High River is scheduled to open in the spring of 1989. Cargill's potential capacity is purported to be 10,000 head per week (500,000 per year).

- Slaughter and processing margins may be reduced due to: (1) the increase in raw material costs resulting from higher slaughter cattle prices; and, (2) increased competition for market share at the wholesale level.

- Average labor rates in the packing industry may be adjusted downward as existing plants have apparently been able to negotiate labor contracts which are tied to the rates which Cargill will be paying. Narrowed margins and the accompanying threat of rationalization in the industry may put management in a stronger bargaining position.

- Cargill is moving into the market with a large (by Canadian standards) new plant that will assumedly contain the most modern technology. This, assuming all other things (labor rates, energy cost, water cost, etc.) being equal , should give them some advantage in the area of variable costs. Although there has been significant new investment in upgrading plant and equipment in Western Canada, it is reasonable to assume that the less efficient of the current plants may have trouble competing. This situation will become even more pronounced if supplies become short and they are forced to operate at less than capacity and may result in some rationalization of slaughter capacity in Western Canada. There may also be a negative impact on the IBP and Washington Beef plants in Washington since these two plants have been purchasing significant numbers of cattle from Alberta and Saskatchewan to fill out their kills in recent years.

- Although we have no way of knowing the marketing strategy for the new plant, we assume the Company will direct a significant portion of its kill to the Western U.S. where it already has a marketing network established. If our assumption is correct, it should be a very positive factor in terms of helping to establish the Canadian product in the Western U.S. market. As the product becomes better known and its value in terms of increased yields recognized, opportunities may arise for existing Western packers to expand their market efforts in the U.S. as well.

Medium to long term:

- Increased margins in the cattle feeding business will, at least in part, be passed on to cow-calf producers, the result of which will be the expansion of the cow herd and an increased supply of feeder cattle (assuming weather patterns return to normal) in Western Canada.

- Assuming rationalization in the existing Western Canadian industry is minimal, and the companies which are involved at the present time remain committed to the beef slaughter and processing business, increased slaughter capacity will provide an opportunity for a significant expansion of the feeding industry in Western Canada.

- Cargill's entry will accelerate the present move toward increased trade in boxed beef in Canada.

- If Cargill's entry results in more activity in the U.S. on the part of Western packers (either because Cargill leads the thrust through its existing marketing and distribution network or because competitive pressures in Eastern Canada force existing Western packers to pursue the U.S. market with more enthusiasm), it should result in less dependence on the Montreal wholesale market. The U.S. market is very large and diverse and should allow an opportunity for Western packers who have a solid base of high quality raw product to expand and diversify. The Western U.S. market is very large, very sophisticated and extremely price competitive. If Canadian packers are to capitalize on the market they will have to become more sophisticated and remain price competitive.

- On balance, we consider Cargill's entry as positive with respect to the Western Canadian cattle industry which in turn will be a positive factor for the feed grain market in Western Canada; neutral to slightly positive to the Western Canadian packing industry; and, generally positive to the provincial economies of Saskatchewan and Alberta.

Eastern Canada

The two major packers in Ontario are Better Beef at Guelph and Canada Packers Tenderlean plant at Burlington. These two plants account for approximately 50 percent of the Ontario kill. There are a number of smaller plants that kill between 1,000 and 1,500 head per week. Canadian Dressed Meats, Graced Beef, F.W. Fearman and Co. and Schneiders are among this group.

Quebec's cattle feeding and packing industries are not well developed. Cows and dairy type steers form a large part of the kill.

Wholesalers/Breakers

Between 60 and 70 percent of the beef moving into Ontario retail stores does so in the boxed form. Boxing is done by the packers, by the chain-store controlled wholesale organizations or by independent wholesalers/breakers. Better Beef's boxing operation is the largest packer-owned breaking plant in the province although many of the other packers also have breaking facilities.

Trillium Meats, a Steinburg subsidiary, is the largest retail-owned breaking operation in Ontario. Trillium services Miracle Marts in the province. Independently owned breaking operations move boxed beef into the retail and food service sectors. Examples of the latter include Best Western Beef Inc. and CanWorld Food Limited.

At one time the independent Montreal wholesalers were the dominant factor in the Quebec market. With the consolidation of the Provigo and Metro Richelieu operations, the independent wholesalers' influence in the market has diminished significantly. At the current time Chatel Meats, Eastern Beef, Quebec Packers Luzon, and Uni Viande are some of the major independent wholesalers. Provigo and Metro Richelieu have their own beef breaking and distribution units.

In British Columbia, Kelly Douglas supplies the Super Valu stores and Lucerne (Calgary) supplies Safeway. The remaining chains and independents buy directly from packers/wholesalers based in British Columbia or elsewhere.

Retailers

Loblaws, Steinburgs, IGA/Food City, and A & P-New Dominion are the largest chains in Ontario. Knob Hill has several large warehouse-type stores in Toronto. There are also a number of smaller independent stores. Between 60-70 percent of the beef moves to retail in the boxed form, the boxing operation being completed by a packer owned breaker operation, a wholesaler/breaker or a retail owned breaking operation. Boxed beef will continue to be an increasing factor in the Ontario retail market.

Metro Richelieu through their retail stores Metro, Richelieu, and Carnival account for between 30 and 35 percent of the Quebec beef business. Provigo accounts for another 25 and 30 percent of the business. Steinberg's is also an important player with between 10 percent and 15 percent of the Quebec market. In the past 3 months, Steinberg's corporate strategy appears to have shifted from one of contraction or possible sale of the assets to one of expansion. They are apparently building new stores at the present time. The remainder of the Quebec retail market is served by smaller, independent stores.

The structure of the retail industry in Quebec is quite different from that in Ontario. Whereas the Ontario retail industry is dominated by corporate-owned stores, both Metro Richelieu and Provigo own a very small percentage of their stores. The majority of the stores carrying their banner are affiliated independents. Metro owns 30 stores and has over 900 affiliated independents. Over 80 percent of the Provigo stores are independently owned. In both chains, the independent affiliates are allowed to buy their beef from the corporate wholesale affiliate or from an independent wholesaler. Steinberg's is the only large corporately owned chain in Quebec.

Three major retailers in British Columbia, Safeway, Overwaitea and Supervalu account for between 70 percent and 75 percent of retail sales in the province.

Food Service

The food service industry in Ontario and Quebec provinces is supplied by wholesalers (either packer-owned or independently owned) who distribute cuts to the various hotel, restaurant and institutional customers. In Ontario, all the major packers have food service divisions. Best Western Beef Inc. and CanWorld Food Limited are two of the larger independent wholesalers involved in the food service industry in Ontario. Brokers such as Eastern Packing House Brokers are also involved in the food service industry in both Ontario and Quebec. Independent wholesalers play a larger role in the food service industry in Quebec than they do in Ontario.

Independent wholesalers play a larger role in the food service industry in Quebec than they do in Toronto. With the consolidation of the retail sector, the role of the Montreal wholesaler has dimished at the retail level. Significant rationalization has taken place and wholesalers have concentrated (either by choice or because it has been forced upon them) more of their efforts on the food service sector. Canada Packers operates a relatively large food service division in Montreal.

4.2 Market Potential

Lean Beef

Canadian consumers have become accustomed to a lean beef product. In the consumers' mind, quality means slight marbling, aged 10-14 days with a maximum of 1/4 inch backfat. Translated to grade, that means bottom A-1 or top A-2. The recent consumer attitudes study completed by the Ontario Ministry of Agriculture and Food suggested that the Canadian product has become as lean as it can and still remain acceptable to the consumer.

Although the Ontario market will not accept beef carrying excessive fat cover, the Montreal market is more conscious of fat than the Ontario market. This is in part due to the structure of the retail market in Quebec. Very few of the independently owned retail stores are owned by people with backgrounds in the beef industry. Given their background, they identify yield as a major determinant of profit in the meat counter and appear to have relatively little concern with aging or marbling. Less trim means more profit.

The Ontario retail market will not accept excessive fat cover, but the market appears to be more concerned with aging and tenderness than does the Quebec market. That given, industry participants in the Quebec market expressed the opinion that there could be a market opportunity for a slightly fatter, well aged, high quality product targeted at the upper segment of the Montreal market.

U.S. No-roll Boxed Beef

U.S. no-roll product in the form of primals and sub-primals has had an impact on the Eastern-Canadian market in the past two years. In the Ontario market, U.S. no-roll appears to have been more of a factor in the food service trade. None of the retailers interviewed would admit to using U.S. product, but from our discussions with others in the industry, it is likely that at least some of the product is getting into the retail chains. Although the product tends to carry more external and internal fat, this is less of a deterrent in the food service trade than it is on the retail side.

In the Montreal market, U.S. product is being used openly in both the retail trade and food service sector. At the current time it is not possible to identify the amount of U.S. product entering the Eastern-Canadian beef trade. U. S. product is also being used in relatively large quantities and openly in the British Columbia market.

Natural Beef

Loblaws is the only major chain handling natural beef at the current time. While Loblaws is committed to their "Natural Choice" program, the other chains in the Eastern market did not show immediate interest in handling natural product. Several identified it as a niche market with a possibility of some potential in the future.

The program was initiated on a trial basis in 1987 and expanded to include the total Loblaws organization across Canada in the spring of 1988. Volumes at the current time are running at approximately 200 carcasses per week (approximately 10,000 carcasses per year).

"Natural Choice" product in Toronto was priced between $0.60 and $1.00 per pound higher than regular beef at retail (April, 1988). The product was offered in a well lit very attractive seperate section of the meat counter. The display was identified with an overhead hanging sign and advertising material was available at the display case. The product and the presentation had a good deal of eye appeal.

The product is now available in Saskatchewan through Loblaw's Supervalu stores, two in Saskatoon and one in Regina. We completed a one-time price comparison of "Natural Choice" and non-branded beef early August, 1988. Our observations are documented in Table 4.2 and 4.3.

Supervalu also had meat (beef, veal, chicken turkey, and lamb) products available under their "President's Choice" label. "President's Choice" is the brand name used by Supervalu to identify their highest quality products. For meat products this means deboned, fat removed, and skinless where applicable.

The "President's Choice" product was available in the Regina and the west side Saskatoon store. Lack of sufficient shelf space was cited as the reason the product was not available in the east side store in Saskatoon. The only "President's Choice" beef product on the shelf on the day the store was surveyed was ground beef and veal. The label on the "President's Choice" ground beef stated that the product contained less than 10 percent fat. A price comparison of the various ground beef products is outlined in Table 4.3.

The Supervalu employees with whom we spoke had been instructed to make no comment on the "Natural Choice" program. They informed us that all questions were to be directed to Head Office. That given, employees in one store told us that they receive and sell the equivalent of about six sides per week. In both stores people with allergies were showing interest in and buying the product.

The Centennial Packers/X-L Beef joint venture which was originally contracted to supply Loblaws on the "Natural Choice" program has been dissolved. It is our understanding that the companies now share responsibility (separately) for providing the required supply.

Approximately 20 ranchers have been supplying calves for the program. These producers were selected very carefully on the basis of: (1) their integrity in terms of their inclination to honor the terms and spirit of their agreement with the packer; (2)

TABLE 4.2

PRICE COMPARISON - SASKATOON "NATURAL CHOICE" VERSUS REGULAR BEEF[1]

Cut Specification	"Natural Choice" ($/kg.)	Regular Beef ($/kg.)	Price Difference ($/kg.)	Price Difference ($/lb.)
Sirloin Tip Steak (boneless)	$ 9.48	$ 8.11	$ 1.37	$ 0.62
Inside Round Steak (boneless)	10.98	8.69	2.29	1.04
Inside Round Steak (boneless, fast fry)	11.48	8.98	2.50	1.13
Rib Steak (boneless)	10.98	10.12	0.86	0.39
Stewing Beef	6.56	4.98	1.58	0.72
Blade Roast (boneless)	6.48	4.89	1.59	0.72
Cross Rib Roast (boneless)	6.98	5.25	1.73	0.79
Outside Round Roast (boneless)	9.78	7.67	2.11	0.96

Source: Peat Marwick, Survey completed on August 9, 1988.

TABLE 4.3

PRICE COMPARISON - SASKATOON

GROUND BEEF

Product Identification	($/kg.)	($/lb.)
"Natural Choice"	$6.56	$2.98
"President's Choice"	6.48	2.95
Lean, non-branded	4.14	1.88
Regular, non-branded	1.94	0.88

Source: Peat Marwick, Survey completed on August 9, 1988.

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[1] Additional cuts were available in "Natural Choice", however equivalent non-branded cuts were not available for comparative pricing.

the quality of their product; and, (3) their management ability. They are paid a premium of $0.05 per pound for their calves which qualify for the program.

The calves are purchased by the packing company and then fed on a custom basis in a feedlot. Ownership remains with the packing company until they are sold at the wholesale level. Those cattle which do not meet program specifications (grade, treatment, carcass size, etc.) are disposed of through normal channels.

Representatives from X-L and Loblaws acknowledged that there is currently a very limited supply of cattle which can be certified as meeting the specifications of the program. There may be an opportunity for another supplier to become involved in the program. One other packer representative confirmed that his company's participation had been solicited but that the company was not interested. Premiums to the packers for carcasses which are able to meet the specifications of the program have been $ 0.20 per pound.

Costs of production of natural beef (to the wholesale level) averages between 20 and 30 percent higher than those for conventional beef[1]. Major additional costs include: (1) a premium price for the calf; (2) additional management requirements; (3) "fallout" due to treatment; (4) "fallout" due to off-grades; and, (5) additional costs due to non-use of growth hormones.

There are several other small independent operators in Alberta and Saskatchewan that are trying to market an antibiotic-free beef product. Ribstone Ranches in Calgary is one company which tried selling 100 percent natural product but has since discontinued the program because it was not profitable. Ribstone now offers natural beef on a custom order basis only. The Beef Information Centre in Regina had heard of several small independents in Saskatchewan but did not know names or any specific information.

Attitudes regarding the place of natural beef in the market varied with the individuals (and their position in the industry) to whom we spoke. Loblaws and X-L representatives saw the product as simply a branded or differentiated product and for that reason, a positive factor in the market. They expressed the view that the natural product was not replacing regular beef but rather was increasing total beef sales in the market ; that is, "Natural Choice" was being sold to consumers who had not previously been purchasing beef. (This view was reflected by other industry representatives with whom we spoke).

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[1] Peat Marwick interviews.

The Canadian Cattlemen's Association is very concerned that the advertising and sale of the product detracts from the image of conventional beef; that is, the sale of a product labelled as "natural" implies that the regular product is in some way inferior. They suggested that the price premium attached to the "natural product" tends to accentuate that view in the eyes of the consumer. The majority of producers, packers and retailers with whom we spoke expressed a view similar to that of the Canadian Cattlemen's Association. The OMAF study tends to confirm this concern.

Although representatives of competing retail organizations and processing companies agreed that the quality of "Natural Choice" appeared to be very high and that the presentation in the store was well done, they suggested that any consumer preference for the product was more the result of the fact of very strict control on the product in the areas of grade and aging (14 days minimum), and not because of the fact that it had been produced with no exposure to antibiotics or hormones.

When confronted with the fact that natural programs had been attempted and then discontinued in several of the large chains in the U.S., all participants in the "Natural Choice" program stated that lack of success in the U.S. was due to the fact that the U.S. programs were not retail driven. It is very difficult for any new product to succeed without solid commitment from the retailer.

Branded Beef

"Le Connoisseur" beef is marketed by Provigo in Quebec. The product, supplied by Montagne Meats Ltd. from Calgary, is certified as Canada Grade A. Merit Beef attaches a sticker to the package which designates its "Boeuf Merite" brand as Canada Grade A beef. The only quality claim in either case is the "Canadian Grade A" designation. It appears to be a method of differentiating Canadian product from U.S. no-roll (which is low priced).

Fearman's is marketing a product carrying their name (gas flush packaging) in Mark's and Spencer and Loblaws (small amounts). The packaging is unattractive and bulky.

5.0 CALIFORNIA INDUSTRY ANALYSIS

5.1 Structure

The U.S. and California beef industry, beyond the producer and feeder levels, is comprised of five basic sectors: packers, breakers, distributors, brokers, retailers, and food service. Each sector will be described here as it relates to the Southern California beef market.

Packers

The U.S. meat packing industry had a "Big Four" in the 1920s comprised of Armour, Cudahy, Swift, and Wilson. During the 1960s and 1970s the number of packers grew and their market shares declined. In recent years - through consolidations, acquisitions, and attrition - a new "Big Three" has emerged: IBP, Excel, and the ConAgra Group (Monfort, Swift Independent, Armour, Miller). These three firms account for about 67 percent of total U.S. fed cattle slaughter, and about 62 percent of all cattle slaughtered in the U.S. These large firms have tended to locate in areas where production takes place. The other 38 percent is slaughtered by small regional or local packers, each with a very small market share in national terms, but of more significance in their local market area.

Sales by meat packers in the Southern California market also are highly concentrated. IBP is the major supplier, with a market share greater than its national share of 25 percent. Other significant packer suppliers from outside the Southern California area include Excel, and E.A. Miller of the ConAgra Group. Only two beef packers remain in the Vernon area of Los Angeles: Federal and Western. These local packers mainly kill Brahman-type cattle fed in the Imperial Valley or the Southern San Joaquin Valley; their combined share of the Southern California beef market is very small.

Breakers

All of the major packers also break carcasses into primal or sub-primal cuts of "boxed beef" in their plants outside the Los Angeles area. Another group of companies purchase carcass beef and break it into primals, sub-primals, and consumer-ready/portion-control cuts, the latter mainly for the food service trade. Some of these breakers are independently owned, e.g., Holiday Meat and Provision Co. Other breaking plants are owned and operated by retail chains, e.g., Stater Brothers and Safeway (likely to be closed when Von's completes their purchase of Safeway). More than 90 percent of all beef is purchased as boxed cuts and shipped into the Southern California market in that form, and the percentage of boxed beef continues to increase.

Brokers

There are a few companies in California who do not take physical possession of beef, but who bring sales opportunities to suppliers on a brokerage basis for a sales commission. As more retailers and food service firms have begun to deal directly with packers, breakers, or distributors, the role of independent meat brokers has declined to a small volume of the total beef market. The continued trend toward direct sales will mean that the 30 companies offering their services as meat brokers in the Los Angeles area will continue to decline in number and market share.

Distributors

Besides the direct sales of boxed beef from packers/breakers to retail chains, there are also meat distributors who purchase boxed beef from the major packers and distribute it to retailers and the food service trade. One of the largest examples is Foster Farms, the major producer and distributor of broiler chickens and turkeys in California. Because it complements their line of poultry products distributed to retailers, Foster Farms sells about 12 loads of boxed beef per week in Southern California and another 3 loads per week in Northern California, with their primary supplier being IBP. Certified Grocers distributes boxed beef and a full line of other products to its member stores throughout Southern California.

Retailers

The largest retail food chains in the Southern California market are Von's, Lucky's, Ralph's, and Alpha Beta. There are many smaller chains that serve market niches: e.g., Stater Brothers, Albertson's, Hughes. In addition, there are the smaller, up-scale, service-oriented stores like Gelsons, Mrs. Gooch's, and Irvine Ranch markets. Some of the store units (independents or within chains) focus on specific market segments, e.g., Spanish-speaking consumers.

Concentration among the large chains has been increasing in recent years with acquisitions and attrition. The recent purchase of Safeway's 172 Southern California stores by Von's, and the purchase of Lucky's by American Stores (which owns Alpha Beta), will have large impacts on market shares. It is estimated that if these consolidations become final, Von's/Safeway will have 30.3 percent of the Los Angeles market, and American/Lucky would control 31.1 percent of this market. A decade ago no food chain held more than 10 percent of the Los Angeles retail grocery market. These consolidations will reduce the number of retail beef customers, although some of the chains will maintain separate beef buyers for each store group. For example, Von's uses different buyers and product requirements for its three store groups: Tianguis, Pavilion, and Von's. The consolidations are expected to have limited impact on consumer food prices, because the Southern California retail food market will remain highly competitive.

Food Service

Americans (including Southern Californians) spend about 40 percent of their annual food dollars on meals consumed away from home. This food service market share has grown steadily since 1960, especially in the Western U.S., with higher growth rates than food consumption at home. Each day more than 175 million consumers are served at least one meal outside the home, and beef is a major "middle-of-the-plate" item in many of these meals.

Rising family incomes, more women working outside the home, increased numbers of single-person households, a more mobile population, increased distances between home and work, and a trend toward convenience eating all have contributed to the shift toward eating away from home. The response to these consumer demand shifts has been rapid growth in fast food franchise chains and multi-unit firms offering a limited menu, moderate prices, more self-service, reduced customer waiting time, and heavy promotion expenditures. These major demographic and economic factors are not likely to reverse direction in California during the next decade, meaning that the away-from-home food market will continue to grow. However, the rate of growth in real sales of meals and snacks away from home may decline as the entire food service industry competes harder for the consumer's food dollar.

It is estimated that approximately one-third of the beef purchased and consumed in Southern California is prepared by the food service industry: restaurants, schools, hospitals, company cafeterias, etc. There are a wide range of company types and sizes in this sector of the beef industry. The larger food service vendors include W.R. Grace, Continental Food Service, Monarch, S. E. Rykorr, and Saga Corp. Some companies like Holiday Meat and Zacky Foods specialize in distributing meats to food service customers. Some major meat packers like Hong Morrell operate their own food service distribution system. There are hundreds of other companies of varying sizes in this sector of the beef industry. Some cater to specific types of outlets like Mexican-type restaurants; others serve a wide range of institutional feeders and restaurant chains.

5.2 Potential Market Segments

There are several segments of the Southern California market that merit special attention, given their potential as customers for Saskatchewan beef, the focus of this study.

Conventional Food Chains

Because they are the largest portion of the total market, with most of their volume made up of no-roll beef, and with their emphasis on a promotion of "lean beef", this is a large and competitive market segment. A few of these chains, including Von's and Hughes, advertise and sell only U.S.D.A. Choice beef, precluding them as Saskatchewan beef purchasers, at least for the near future until reciprocal grading protocols are established. The "lean beef" standard promoted by most chains is one-quarter-inch trim, which is done by the breakers or by the store itself. Several chains in this category expressed an interest in trying Saskatchewan beef when a program is in place.

Natural/Up-scale Stores

Many of the natural and gourmet food chains (mostly with 6 to 20 store units) handle beef, which is sold at higher prices than in conventional supermarkets. All of the natural beef is now sold through these stores (even though it was tried by some conventional chains and discontinued), and some of these chains (e.g., Gelsons and Pavilions) are on U.S.D.A. Choice programs. However, the limited volume of no-roll, lean beef sold through these markets make them a low-priority segment for Saskatchewan beef.

Spanish-Focus Markets

There are a growing number of food stores in Southern California that cater primarily to the large Spanish-speaking population. Many of these markets are independently-owned, purchasing their beef through distributors. A recent innovation has been the large, up-scale group of Tianguis supermarkets operated by Von's. This market segment is attractive for Saskatchewan beef because (1) it is growing rapidly, (2) it emphasizes lean beef, (3) it purchases no-roll beef, and (4) the multi-store purchasing unit is large enough to purchase loads of boxed or carcass beef.

Discount Stores

Another major retail food sector in Southern California are the chains of discount stores like Price Club and Costco. Most of these stores sell frozen meat products. Price Club may be a potential outlet for Saskatchewan beef because they currently handle pork products from Saskatchewan.

Food Service

As stated above, the food service sector accounts for a large portion of total beef sales in Southern California. This market segment cannot be overlooked as a potential outlet for Saskatchewan beef. The best approach is to sell carcass beef to breakers and boxed beef to distributors who service this market segment. Holiday Meat and Provision Corp. is a good example of food service breaker/distributor showing interest in Saskatchewan beef, while CanAm Foods has experience selling Canadian beef to restaurant accounts.

Distributors

Foster Farms and Certified Grocers are examples of companies who distribute boxed beef to small chains, independent stores, and in some cases to food service outlets. They represent a significant (though declining) segment of the market. Foster Farms has expressed an interest in Saskatchewan beef as a secondary source to supplement its current boxed beef supplies from IBP.

5.3 Market Entry Requirements

A successful marketing program involves the *right product* at the *right price* in the *right package* through the *right distribution channel* with the *right information*. Several hurdles that must be cleared for the GB-90 program to enter the Southern California market successfully are discussed below.

IBP Quality Standard

IBP was the leader introducing boxed beef in U.S. markets, including Southern California, some 15 years ago. They have remained the leader in boxed beef sales by (1) producing a very consistent product with every box of beef predictably similar; and (2) educating meat department personnel on the merits of a boxed beef program. Thus other suppliers, and especially a new supplier like SWP, must produce a product of equal or superior consistency and quality to that available from IBP.

Price Competition

A new supplier of boxed or carcass beef also must offer prices at least comparable to those quoted by IBP and other major suppliers. Potential customers will not consider switching supply sources unless price offers are competitive at the outset. It also is unlikely that price premiums will be possible for yield-comparable boxed or carcass beef over the long run due to the highly competitive nature of this market. Our price analysis in Section 8 suggests that price competitiveness is a problem.

Product Yields

A potential advantage of SWP beef that can help gain market acceptance is the higher yields of lean meat, especially from A1 and A2 cattle, than U.S. meat merchandisers realize from cattle that would grade U.S.D.A. Choice or Select and Y3 or Y4[1] under the U.S. yield grading system. This advantage will be the greatest on carcass cattle, but boxed beef from Western Canada also should yield higher. Over the years some of this advantage has declined due to leaner cattle demanded and produced in the U.S. and sold as no-roll beef, and the imports of A1 and A2 cattle from Western Canada for slaughter and distribution in the U.S. market by IBP and other packers, without identifying it as Canadian-source beef. However sufficient advantage still exists that will make cutting tests a useful way to demonstrate to buyers the merits of Saskatchewan beef.

Much of the advantage of leaner Canadian beef has been offset by Southern California retailers offering and advertising beef with external fat trimmed to one-quarter inch or less (ten years ago the standard was one-half inch). The main marketing advantage will be with the retailers or breakers who now must trim Y3 and Y4 cattle to meet that standard, resulting in product waste and higher labor costs. In the long run the realization of higher yields may result in some yield-adjusted cost premiums, but there is no assurance that will occur in this highly competitive, sophisticated market.

Product Packaging

It is extremely important that a new market entrant presents the product in a box with colors and logo as attractive as, or more attractive than the competition. For example, a white box with attractive logo will stand out compared with the plainer brown box used by IBP. Mitchell's Gourmet Meats has done an excellent job of product packaging in introducing and marketing Saskatchewan pork products in Southern California; a similar approach is needed for a boxed beef program. The addition of recipe stickers etc. might also be considered.

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[1] Y3 or Y4 refers yield grade.

Market Representation

An extremely important ingredient in a successful beef marketing program in Southern California is to have high-quality people with solid reputations in the meat trade representing SWP and its products. It would be impossible to carry out a marketing program from Saskatchewan without a daily presence in the Southern California market for customer service and viability. The project team has been impressed with the quality, reputation and contacts of the marketing people employed by one Canadian packer in Southern California, as well as their background and knowledge in beef.

Any Canadian entity undertaking a beef marketing program in the U.S. must make a long-term commitment to that market. Such a commitment should include the hiring of personnel who understand, from practical experience, how to produce and market beef for the Southern California market.

Consistency and Customer Service

It is also very important to supply a consistent product to the market to compete with IBP and other suppliers. Those beef purveyors who have not supplied a consistent product have left the Southern California market or have small market shares based upon price discounting. This cannot be an "in-and-out" program; product must be available to customers 52 weeks of the year. Some chain store meat buyers asked about weather restricting product deliveries for extended time periods; they were assured that would not be a problem, but that fact needs to be demonstrated through performance.

The Saskatchewan supplier also needs to stand behind the product 100 percent. If the customer has a legitimate complaint due to product quality, delivery, or other problems that can arise in beef marketing, the marketing staff needs to help solve the problem immediately, and SWP needs to make the situation right with the customer. This approach has been a successful ingredient of Mitchell's fresh and processed pork programs.

5.4 Lean Beef

There is a great deal of emphasis on "Lean Beef" in the Southern California market. Most major retailers advertise that their beef is trimmed to one-quarter inch of fat or less. Some retailers (e.g., Albertson's) are promoting the leanness of their beef by posting information on calories, fat, cholesterol, and other nutritional contents per 3-ounce serving of specific beef cuts in their meat counters. Other retailers and producer groups are promoting "light" or "lite" beef with lower fat and calories than traditional beef. Some suppliers are testing their products in order to certify to retailers and consumers that they are "lean" or "lite" compared to "regular" beef. Consumer awareness continues to grow, reinforced by the medical profession, that consumers should be eating less animal fat in their diets.

It is clear that Saskatchewan-produced cattle that grade A1 or A2 contain less internal and external fat than U.S.-produced cattle that would grade Choice or high-Select and (yield grade Y3 or Y4). A very small percentage of U.S. fed cattle will qualify for yield grades 1 or 2. This lean superiority of Saskatchewan should be clear from the cutting tests that need to be conducted as soon as possible.

In the longer run the leaner nature of the Saskatchewan-produced beef should be presented to potential buyers as a product characteristic that can be documented and promoted to consumers. A program similar to the Albertson's "Lean Facts" program could be carried out jointly with a major retail chain willing to make a long-term commitment to Saskatchewan beef. A "Lite" beef program also is saleable to certain segments of the restaurant trade for identification on their menus.

The Spanish-speaking consumer prefers leaner beef, with internal fat for tenderness not as important as in other market sectors (e.g., white tablecloth restaurants). This market sector presents a great opportunity for the leaner Saskatchewan beef, especially in the high-volume, up-scale new supermarkets that are catering to Mexican or other Spanish-speaking consumers.

5.5 Natural Beef

"Natural" beef generally is defined as that produced without hormones, antibiotics, or other chemical additives in the feed or through implants or injections. Several suppliers are attempting to market natural beef in Southern California. The leading supplier has been

Coleman's of Colorado. There are also a few natural beef suppliers in California, including Harris Beef in the San Joaquin Valley and a small producer in San Diego County. Natural beef producers also are springing up throughout the U.S., with various standards established for their products.

Some of the major retailers-including Von's and Alpha Beta - have test-marketed natural beef, but are no longer selling it. The main reasons that it did not succeed are (1) there was not sufficient consumer interest in natural beef, and (2) the substantial price differences between natural beef and "regular" beef of up to $1.00 per pound at wholesale, when carried through to retail, led to a great deal of consumer resistance to the product. None of the major food chains in Southern California are planning to merchandise natural beef in the foreseeable future.

There are a few up-scale natural foods markets that are selling natural beef. One of the most visible is Mrs. Gooch's, with six natural food stores in high-income Los Angeles neighborhoods. These stores promote natural beef ("You will never find a growth hormone or antibiotic in our beef.") without identifying the suppliers. Most of the beef comes from Coleman's with some fill-in volume from a San Diego County producer. The six Mrs. Gooch's stores market a total of about 20 head of natural beef per week, selling their steaks and roasts at about $2.00 per pound more through high-service meat counters than the prices in traditional supermarket self-service meat departments.

It does not appear that there is sufficient volume potential for natural beef in Southern California to justify development of such a program by SWP. Coleman's is selling 20,000 head of natural beef per year throughout the U.S., with no more than 1 load per week (3,000 head per year) sold in Southern California. Other natural beef suppliers combined are selling no more than one load per week in this market. It makes more sense to emphasize other segments of the Southern California market with greater volume potentials, and where Saskatchewan has a comparative advantage with their leaner-produced beef products.

5.6 Labels

Consumer labelling of fresh beef by suppliers is insignificant today in the Southern California market and throughout the U.S. Only chain store labels appear on the tray packs with the product identification, price per pound, and total price. Some chain stores add another sticker to promote their product, e.g., Albertson's" "Supreme Meat/Guaranteed." It is unlikely that retail packer labels will appear on fresh beef until and unless retail packaging is done by the supplier. Even then the retail chains will resist packer labels because (1) they want consumers to identify the retailer, not the supplier; and (2) they wish to maintain flexibility to purchase beef from different suppliers based upon price, quality, and other factors.

It is important to market boxed beef under an attractive label on attractive boxes. The options are to (1) use the attractive "Mitchell's Gourmet Meats" label, or (2) develop a new beef label that would be owned and controlled by SWP. There are advantages and disadvantages associated with each of these options.

There also is potential for marketing frozen beef cuts to discount stores (e.g., Price Club) under a producer/packer label. Monfort (Colorado), DPM (California), and Ak-Sar-Ben (Nebraska) currently are in the Price Club meat cases with "Natural" and "Lite N Lean" steak packs. Mitchell's sells about one-third of its processed pork products to this chain of discount stores under their own brand.

5.7 Volume Potentials

The sheer size of the Southern California market creates an attractive potential for marketing Saskatchewan beef: 13.4 million consumers (Los Angeles/Anaheim/Riverside) purchasing 117 lb. per capita per year (10 percent above the national average), or a total annual disappearance of 1.57 billion lb. (carcass equivalent). This converts to 673 truckloads of boxed beef per week (40,000 lb. per load) and 2.1 million head of cattle per year. While most of this market will continue to be met by the large U.S. packers (IBP, Excel, ConAgra Group), there certainly is room in this market for a substantial amount of Saskatchewan beef. Mitchell's Gourmet Meats and the Saskatchewan Pork Producer's Marketing Board have demonstrated that a high-quality, reliable meat supplier based in Saskatchewan with an effective sales/marketing office and competitive prices in Southern California can successfully enter and grow in this market. In fact, this history in pork could help pave the way for Saskatchewan beef in the Southern California market.

Given the total market size and the interest expressed by retailers, breakers, and distributors in handling Saskatchewan beef as part of their total meat requirements, it is realistic to expect sales of 5 loads per week within six to nine months after a program is initiated and sample shipments have demonstrated the high quality of Saskatchewan beef to interested buyers. Five loads per week would be seven tenths of one percent of total market disappearance in Southern California. This estimate is predicated on the Saskatchewan beef being price-competitive with U.S. supply sources of comparable quality.

16,000 hd/year

The estimate of five loads per week is based upon the sale of one load per week to each of the following customers:

1. ***Tianguis*** A cattle pack [1]program of A1s or high A2s to this new, successful Spanish-focused chain with two large markets now and 10 stores to be in operation within the next year. Their emphasis on lean meats can be nicely served by a Saskatchewan production program.

2. ***Holiday Meat and Provision Corp*** This breaker could use one load of carcass beef per week, along with supplemental boxed ribs and loins to meet their demands from the food service trade. Since they now purchase mostly Y4 carcasses, they should be provided with some A3 carcasses and boxed primals in a sample shipment.

3. ***Stater Brothers*** This chain of around 100 stores in the Riverside/San Bernadino area currently breaks their own carcasses (about 1,000 per week) and purchases boxed beef from IBP, Excel, Miller, and Monfort to meet the demand for specific beef cuts. They will likely be switching totally to a boxed beef program within the next year (perhaps as early as November, 1988, when their labor union contract comes up for renegotiation). They should be sold some carcasses and some cattle pack boxed beef for a test cutout program. A2 and high A3 cattle would probably compare favorably with the cattle they purchase now and would be more price-competitive than A1 carcasses.

4. ***Foster Farms*** A cattle pack program of A2 boxed beef probably would be most competitive with the no-roll beef they purchase now (mainly from IBP) and distribute to independent supermarkets.

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[1] A cattle pack is the equivalent of the complete carcass.

5. ***CanAm Foods*** This importer/distributer sells mainly to the food service trade. In the past he has purchased beef from Canada Packers; but due to problems with consistent supply, he no longer deals with them. Based on his experience, he is confident there is a market for front cuts and leaner meats to his food service customers that sell to the restaurants and other food service outlets catering to the Mexican population.

Five loads of boxed beef and carcasses per week translates to a demand for about 15,600 head of slaughter cattle per year.

There are many other beef marketing opportunities that would need to be pursued by the sales organization: retail chains (e.g., Albertson's), discount chains (e.g., Price Club), food service companies (e.g., W.R. Grace), and breakers (e.g., Jobbers). Those contacts would all be part of a long-term marketing program. The specific companies listed above are high-interest buyers who demonstrate the immediate potential for Saskatchewan beef in the Southern California market. The pursuit of specific customers would be a responsibility of the sales organization once a beef marketing program is in place.

6.0 CALIFORNIA CONSUMER SURVEYS

Three surveys of Southern California consumers were completed to assess: beef consumption patterns; attitudes toward and potentials for differentiated beef products, including lean or natural beef produced in Saskatchewan; consumer tastes and preferences for beef; and demographic characteristics associated with consumer attitudes toward beef. This in-depth consumer research was designed and completed to provide SWP with information to assess the feasibility of marketing Saskatchewan beef products in Southern California.

To develop a complete set of consumer information, three types of market research were completed: telephone interviews, store exit interviews, and focus group sessions. The results of each type of research are summarized in the following three sections. The final section summarizes the implications of the consumer research for marketing Saskatchewan-produced beef in Southern California.

6.1 Telephone Survey Results

Telephone surveys were completed with 1,000 households in the Greater Los Angeles metropolitan area. The first step in this process was to design a survey questionnaire for use in the telephone interviews. Upon completion of the questionnaire design, the surveys were pre-tested with 10 telephone interviews. A copy of the final questionnaire appears in Appendix C. ?

In order to complete surveys of 1,000 beef users, approximately 1,300 initial interviews were conducted in Northwest L.A., Southwest L.A., East L.A., and Orange County. Approximately 300 of the respondents did not purchase or consume beef. Table 6.1 summarizes the demographic characteristics of these four market areas. The surveys were conducted during late-May and early-June, 1988.

To summarize the results from each market area, tables, located in Appendix F, have been prepared for each subject covered by the survey. The tables are numbered 1-50, with each table number corresponding to the number in parentheses in the right hand margin on the survey form (Appendix C). The numbers in parentheses in the descriptive narrative that follows also correspond to numbers in parentheses in the right hand margin of the survey form (Appendix C).

TABLE 6.1

DEMOGRAPHIC CHARACTERISTICS OF MARKET AREAS GREATER LOS ANGELES, 1987

	N.W. L.A.	S.W. L.A.	East L.A.	Orange County
Number of Households	505,521	474,810	980,094	623,268
Median Households Income of Zip Code Areas (U.S. Dollars):				
Low	14,605	11,793	11,305	21,300
High	58,505	60,788	42,116	50,619
Average	30,817	28,524	28,371	33,944
Racial Composition of Households (percent):				
White	79.4	52.9	60.5	78.7
Black	5.4	14.9	4.1	1.3
Hispanic	10.9	24.9	27.5	14.9
Asian	3.6	5.9	6.9	4.5
Other	0.7	1.4	1.0	0.6

Since willingness to purchase Western Canadian beef is a key question in the survey, the respondents who answered "yes" on question 40 are summarized under the "Canada" heading on most of the tables. Where substantial differences exist between the Canadian group and all respondents, those differences are noted in the accompanying narrative.

Main Meal Serving Patterns

The number of main meals served per seven-day week ranged from one to fourteen (includes lunch and dinner). Six main meals was the average served per week by respondents, with no significant difference among market areas (1). Responses varied from respondents who never served beef as part of a main meal to those who served beef a maximum of twelve times per week. East L.A. had a slight edge in average beef servings per week, compared with the total (2). Beef was served, on average, 49 percent of the time in the households surveyed. East L.A. was 10 percent higher than the average, serving beef as part of a main meal 54 percent of the time (3), mainly as a result of the larger Hispanic population in that area.

Beef Non-Users

Of all the persons contacted in the telephone interview, 166 (about 13 percent of the total) never served beef as part of the main meal. After asking their gender and reasons that they did not serve beef, the interviews with these beef non-users were terminated.

About 68 percent of these people who never served beef as part of a main meal were female (4) compared to 77 percent of all respondent beef users being female (46). The main reasons why respondents did not serve beef fell into one of three categories: "vegetarian" (21 percent), "health" (18 percent), and "high cholesterol/fat" (16 percent). Respondents listed digestion, blood pressure, headaches, and "not good for you" as their health concerns. Only 1 percent of those questioned said the reason they did not serve beef was because it was too expensive (5).

Beef Purchasing Patterns

Steaks and ground beef were the beef cuts purchased most often. Thirty-nine percent of the respondents purchased steak followed by ground beef (38 percent) and roasts (19 percent) (6).

Almost one-fourth of the respondents bought their beef at Von's, followed by Lucky (14 percent), and Ralph's (13 percent). The "Other" category includes smaller chains, individual stores, and meat markets. The greatest disparity among areas occurred between Northwest L.A. and Southwest L.A., with 30 percent of the respondents from Northwest L.A. shopping at Von's, compared to 18 percent of the Southwest L.A. shoppers. The number of Southwest L.A. respondents who shopped at local grocery stores or meat markets (30 percent) was higher than the overall average of 18 percent (7).

"Proximity to home" was the primary reason the respondents shopped at a chosen supermarket (42 percent), followed by "high quality beef" (29 percent), and "do all shopping there" (12 percent). Therefore, those markets located in target neighborhoods (e.g. Tianguis for the Hispanic trade) offer the best access to specific market segments (8). When considering all reasons given for shopping at a given supermarket, the order of priority for the top three factors did not change. Price, though generally not the primary reason for shopping at a supermarket, does play a greater role as a secondary motive, however (9).

On a scale of Excellent to Poor, the average quality rating for current beef purchases was Good, with very little difference among the four market areas (10). Average quality ratings were slightly higher from respondents shopping at Von's and Alpha Beta than at Lucky and Ralph's (11).

Fat content and color were the two factors people considered first when purchasing beef. More than one-half of the respondents looked at fat content first, while almost one-third of the respondents considered color the most important factor when selecting beef. Respondents who considered fat content the primary factor in beef selection were divided between those who liked very little to zero trim and seam fat (72 percent) and those who preferred nice marbling (23 percent). Of those

favoring color, 52 percent liked beef that was bright red. The percentages for the Canadian group were virtually the same as all respondents (12).

The respondents were split between which type of packaging they preferred. Half of those questioned preferred "pre-wrapped/self serve beef," while 46 percent selected "display case/butcher service beef." East L.A. was an exception, with 76 percent of those surveyed preferring "pre-wrapped/self serve beef" compared to 17 percent for "display case/butcher service beef" (13).

Sixty-nine percent of the respondents looked at the price per pound when considering price/value rather than cost per serving (19 percent). These proportions were consistent across all market areas (14).

Seventy percent of the respondents said the portion size was important (42 percent) or very important (28 percent) when shopping for beef. Portion size was slightly more important to respondents in Southwest L.A. (75 percent) compared to all respondents (70 percent) (15).

A portion size of three to four servings was said to be optimum by 39 percent of the respondents, followed closely by two servings (35 percent). Five or more servings received 16 percent, while one-serving sizes finished fourth with 9 percent of the total. The distribution was very similar between market areas (16). Thirty-eight percent of the respondents who stated that portion size was "very important", said that a two-serving portion size best met their household needs. A higher percentage (46 percent) of those people who responded "important" on portion size said that three to four serving sizes best met their needs. About 32 percent of the "very important", group preferred portion sizes for three to four (17).

Lean Beef

Ninety-one percent of the respondents stated that they were either somewhat satisfied (52 percent) or very satisfied (39 percent) with the amount of the fat trim level of beef they purchase. Mean values were closest to "somewhat satisfied." Those surveyed in Southwest L.A. tended to be less satisfied than the respondents from the other areas, with 13 percent declaring they were "not very" or "not at all" satisfied, compared to an average of 8 percent for the other areas (18).

Sixty-nine percent of those surveyed trim their beef before cooking it "some of the time" (35 percent) or "all of the time" (34 percent). The remaining 31 percent of the respondents were divided between "rarely" and "never." The most striking difference among areas occurred in S.W. L.A.: 40 percent "all of the time;" and East L.A.: 26 percent "all of the time." The lower "all of the time" and higher "never" in East L.A. reflects stores catering to the Hispanic trade with their preference for leaner beef (19).

A large share (41 percent) of the respondents trim their beef before they eat it "all of the time," followed by 25 percent who trim it "some of the time" and "never." Those surveyed in East L.A. trim their beef less often than those in other areas, especially Southwest L.A (20).

Respondents were equally divided when asked if the availability of leaner produced beef would cause them to increase their beef purchases. Slightly more than one-half of those surveyed said "probably not" (27 percent) or "no" (29 percent), they would not purchase more beef. The other 43 percent answered "yes" (25 percent) and "probably" (19 percent) (21). Of those who said they would purchase lean beef, 55 percent stated they would not eat any more beef than they are now eating, and 16 percent replied that they did not know if they would consume more beef. The rest of the responses were distributed fairly evenly from a 1-percent to a 50-percent increase. Responses among areas were very similar, with the exception of Orange County area: a low number of people who answered "none" to whether they would increase consumption (39 percent), and a greater percentage who said they would eat 21-50 percent more beef (23 percent) (22).

About 30 percent of the respondents would not pay a premium for good-tasting lean beef, and almost 30 percent more did not know how much extra they would pay. About 16 percent would pay 6-10 percent more, and 11 percent of the respondents would pay 1-5 percent more. The Canada beef positive respondents had a slightly higher-than-average share that would pay a 1-10 percent premium for lean beef (23).

USDA Grades

Slightly more than three-quarters of those surveyed stated that the the USDA grade was "very" (54 percent) or "somewhat" (24 percent) important to them in selecting beef products (24). Choice was the USDA grade of beef selected most often (43 percent), followed by prime (28 percent), with Select/Good a distant third (7 percent). The "prime" response shows consumer confusion about beef grades, because prime-grade beef generally is not available in Southern California supermarkets. Twenty-one percent of the respondents do not know what grade of beef they purchase. The respondents in Northwest L.A. bought the most USDA Choice beef (48 percent), while Southwest L.A. bought the least (35 percent) (25).

Natural Beef

Only 26 percent of all those surveyed had heard of "natural beef." East L.A. had the lowest share of respondents who had heard of "natural beef" (19 percent) (26). Only about 40 percent of those who had heard the term "natural beef" gave a correct definition: produced without hormones or antibiotics. The Canadian group scored slightly better than the average, with 46 percent of the respondents giving the correct definition (27).

When questioned about the use of growth stimulants and antibiotics in beef production, 64 percent of the respondents said "yes" they were concerned, 25 percent answered "no," and 11 percent "did not know." Sixty-seven percent of the Canadian group said "yes" they were concerned about the use of antibiotics and hormones (28).

Only about 10 percent of those questioned had purchased a product labeled "natural beef," leaving 69 percent who had never purchased natural beef, and 22 percent who did not know whether they had or not. The Canadian group was slightly above-average with a 11.5 percent purchase rate for natural beef(29).

Two-thirds of the respondents said they would be very interested (35 percent) or somewhat interested (31 percent) in purchasing natural beef. The remaining respondents were either "unsure" (15 percent), or "not very," or "not at all" interested (19 percent). Northwest L.A. led in number of people interested in natural beef (71 percent) followed by East L.A. (66 percent). Again, the Canadian group was slightly more interested in buying natural beef (71 percent) than the total (66 percent) (30). Concern for health was the number one reason people were interested in natural beef (41 percent of all respondents). The runners up included "no additives" (14 percent), "all natural" (12 percent), and "no chemicals" (12 percent) (31).

Of those respondents not interested in natural beef, 48 percent stated that they did not know enough about it, 13 percent said it was too expensive, 5 percent said they did not trust the word "natural," and 4 percent said it was a gimmick (32). Among those interested in purchasing natural beef, about one-half said they would do so "all of the time" (27 percent) or "some of the time" (22 percent). The largest group of respondents who would buy natural beef "all of the time" or "most of the time" live in Orange County (88 percent), while Southwest L.A. ranks lowest (64 percent). The Canadian group lagged behind all respondents in the "all of the time" category by 9 percent (33).

Almost one-half of the respondents said they would not eat more beef if natural beef products were available. The rest of the group was divided between "yes" (34 percent) and "do not know" (18 percent). Positive responses were slightly higher among the Canadian group at 37 percent (34). Of those who said they would eat more beef if natural beef were available, the percent increase ranged from one percent to over 50 percent, with an average increase in consumption of about 25 percent. An average increase of 25 percent by 20 percent of the respondents suggests a five percent increase in total consumption if price conditions were met (35).

Over 44 percent of the respondents stated that they would not pay a premium for natural beef, and 18 percent said they did not know. Of those respondents who would pay a premium for natural beef, 40 percent would pay 6-10 percent more; and 27 percent would pay 1-5 percent more than they now pay for beef. These price responses help explain why the sales of Colemans' Natural Beef, priced at 25 to 40 percent above other available beef, have been very small in the Los Angeles market to date. The Canadian group showed above-average willingness to pay price premiums for natural beef (36).

Canadian Beef

No strong interest was shown in brand-name, fresh beef products over currently available beef. No interest was indicated by 37 percent, positive interest was shown by 36 percent, and 26 percent did not know. Responses were similar across market areas except in Orange County, where the negative response to brand-name beef was stronger (37).

Sixty percent of the respondents said that the origin of the beef they purchase was important to them. Origin was not important to 28 percent of the respondents, and 12 percent said they did not know (38). In comparing respondents interest in purchasing beef from various country origins, Canada did very well, with 18-23 percent more inclined to buy beef from Western Canada than from other origins, and 33-54 percent stating that they were indifferent whether beef was produced in Western Canada. The only origin showing a stronger purchase inclination was the U.S.; Canada was twice as strong as any other country of origin (Australia was ranked third) (39).

Almost two-thirds of all respondents stated they would purchase "natural or lean beef produced on the prairies of Western Canada" if it were available at their favorite store. These positive responses were highest in N.W. L.A. (71 percent) and lowest in S.W. L.A. (62 percent). The East L.A. and Orange County positive respondents were in the 65-66 percent range (40).

In response to questions about changes that would increase purchases and consumption of beef, the positive responses were evenly distributed among six factors: "increased tenderness and flavor" (17 percent), "leaner cuts of beef" (14 percent), "nutrition labeling" (14 percent), "naturally produced" beef (13 percent), "10 percent lower prices" (13 percent), and "easier to prepare" (11 percent). The first three factors provide direction to the design of a "Canadian Lean" marketing program (41).

Respondent Demographics

About 60 percent of the people surveyed did not have any children living in the household. Among those families having children, two was the most common (17 percent), followed by one (14 percent), and three (6 percent). There was an average of .81 children per household among all survey respondents, with the largest family sizes in East L.A. The Canadian group average number of children (.93) was 15 percent above the overall average (42).

Two-person households were the most common in Los Angeles (34 precent), followed by four-person (20 percent), and three-person households (19 percent). The larger households (those of five or more people) were located in Southwest L.A. (22 percent) and East L.A. (19 percent) (43).

Forty percent of those surveyed worked full-time, 12 percent worked part-time, and 48 percent did not hold a job outside of the home. The largest number of respondents working full-time lived in Orange County. The greatest number of respondents who did not have jobs lived in Southwest L.A. (44). One was the most common number of other household members (besides respondent)) working full-time outside the home (51 percent), trailed by two (13 percent), and three (5 percent). Thirty-four percent of the homes had no one else working full-time outside the home. The number of other household members working part-time was minimal. Ten percent of the homes had one family member working part-time, while 88 percent of the homes had no other part-time workers (45).

The most common level of schooling completed was "high school" (29 percent) followed by "some college" (23 percent). Those with a four-year college degree made up 19 percent of the respondents. The Canadian group had more two-year and four-year college graduates than all respondents. Orange County has substantially more four-year college graduates than the other market areas (46).

The age of respondents was fairly evenly distributed above age 21. The largest group surveyed was the 35-44 year olds (23 percent). The 45-64 year olds made up 30 percent of respondents. Twenty-eight percent of those surveyed in Southwest L.A. were 65 and over compared to 22 percent of the total. Also, 9 percent more 22-44 year olds were surveyed in East L.A. than all of the Los Angeles area (47).

One-fourth of all respondents had annual household incomes of $30,000-$40,000, followed by those household incomes of $50,000 or more (22 percent), and $40,000-$50,000 (11 percent). Thus, nearly 60 percent of the respondents had household incomes above $30,000. The Canadian group had higher-than-average incomes, with 64 percent above $30,000. Among market areas, Orange County and N.W. L.A. had the highest incomes, with annual household incomes below-average in S.W. L.A. and East L.A. About 14 percent of all respondents refused to answer the income question or did not know (48).

The racial composition of all respondents was over 80 percent white, 10 percent Hispanic, 6 percent Asian, and 4 percent black. Variations in each market area tend to follow the racial composition of that area (Table 0.1). The Canadian group had a slightly higher proportion of white respondents, and a slightly lower percentage of Hispanics and blacks (49).

Females accounted for 77 percent of the respondents, 23 percent were males. The Canadian group was comprised of a higher share of males (27 percent than were all respondents (50).

6.2 Store Exit Surveys

Interviews were conducted with 200 consumers at eight retail grocery stores in the Greater Los Angeles area during the latter half of May, 1988. The names of the store chains are listed in Table 47. Twenty-five respondents were interviewed at each store using the Store Exit Survey Questionnaire in Appendix D. Tables 51 through 71 (located in Appendix G) summarize the results of the store exit surveys. As with the Telephone Survey Questionnaire, corresponding table numbers are located in the right margin of the Survey Questionnaire.

Because this willingness to purchase Western Canadian beef is a key question (67) in the survey, the 128 "yes" respondents are compared, under the "WCAN BEEF" heading, with the total respondents in many of the summary tables to see if their responses are substantially different from those of all respondents.

Demographics

Two-thirds of the respondents were females; one-third were males. Slightly higher interest in WCAN beef among females than males, but not a statistically significant difference (52). Three-fourths of respondents were white, 13 percent were Hispanic, 9 percent black, 3 percent Asian. Slightly higher interest in WCAN beef among whites and Asians; lower interest among blacks and Hispanics; but not statistically different (53).

Lean Beef

Three-fourths of respondents now purchase lean beef. A much higher proportion of lean beef purchasers (88 percent) showed interest in WCAN lean or natural beef (54).

Reasons for not purchasing lean beef were broadly distributed among flavor, cost, toughness, and taste. Taste was relatively more important among those with an interest in WCAN beef (55). Reasons for purchasing lean beef were distributed among related reasons of less fat, health-conscious, and less cholesterol (combined total of 93 percent). Distribution was similar for WCAN beef and total (56).

One-third of respondents would purchase more beef if leaner beef were sold in stores; almost one-half would not purchase more beef. A higher percentage of WCAN answered no: this is related to the fact that they already purchase lean beef (54,57).

Natural Beef

Only 42 percent of all respondents had heard of Natural Beef; over 50 percent of the WCAN beef respondents had not heard of it (58).

One-fourth of all respondents had purchased natural beef, 56 percent had not, and 19 percent did not know whether they had. About one-third of consumers interested in WCAN beef had purchased a Natural Beef product (59). Those who had purchased Natural Beef rated it above-average, with a mean of 2.02 (1 =

Excellent and 5 = Poor). However, this quality rating by Natural Beef purchasers was not significantly higher than the 1.92 average quality rating by all respondents in the telephone survey (8). The quality responses ranged from Excellent to Poor (60).

About 88 percent of those who had purchased Natural Beef would buy it again; the response was even higher (95 percent) for those showing interest in WCAN beef (61).

Of the non-users of Natural Beef, there was a wide attitude range-from "Very interested" to "Not at all interested" - in purchasing Natural Beef quaranteed to be free of hormones and antibiotics. Among all respondents, 31 percent were in the "Unsure" category followed by "Very interested" (30 percent) and "Quite interested" (26 percent). In the WCAN group the leading response was "Very interested" (42 percent) followed by "Quite interested" (25 percent) and "Unsure" (24 percent). The WCAN non-users showed 15 percent higher average interest than the total group (62).

On the issue of price premiums, about 50 percent of all respondents interested in Natural Beef would pay up to a 10 percent premium, compared to 54 percent in the WCAN group. About 10 percent of respondents would pay no premiums, and about 15 percent would pay from 11 to 30 percent more for Natural Beef. These findings are consistent with the limited sales of Natural Beef now occurring at prices 35 to 60 percent above regular beef in Los Angeles supermarkets (63).

On frequency that interested respondents would purchase Natural Beef, 61 percent said all of the time, while 33 percent said some of the time. Sixty-nine percent of the WCAN group said all of the time for purchasing Natural Beef (64).

Country of Origin/Canadian Beef

Sixty percent of all respondents and 61 percent of the WCAN group stated that the country origin of beef was important to them. However, 28 percent of the WCAN group stated that origin was not important, compared to 20 percent for all respondents (the big difference was the "do not know" category) (65). The reasons that respondents felt the origin of beef was important were lower quality control in other countries (53 percent), freshness (21 percent), buy Amercian (14 percent), and support U.S. ranchers (13 percent). The distribution of reasons was similar for the WCAN group (60,66).

Purchasing Factors

The most important factor considered by respondents when purchasing fresh beef was its leanness or fat content. As the first factor considered by 43 percent of all respondents and 48 percent of the WCAN group, leanness was twice as important as any other first factors mentioned (freshness, color, price/value, marbling). The most important second factor was freshness, and the most important third factor was price or value. The ranking of all factors mentioned was leanness (22 percent), freshness (19 percent), color (17 percent), and price/value (17 percent). The ranking of factors and their relative importance were similar for all respondents and for the WCAN group (68).

Household Characteristics

Household sizes ranged from one person (14 percent) to six or more people (2 percent), with two-person households most common (36 percent). Average household size was 2.8 persons, with the mean and distribution virtually the same among the WCAN group and all respondents (69).

The median household income was in the $25-30,000 category, with the most respondents in the $30-40,000 range (27 percent of all respondents). The WCAN group had a slightly higher percentage of respondents in the $25-40,000 income range, and a smaller proportion under $20,000, than did all respondents (70).

The largest estimated age group was 35-54 years (48 percent), followed by 22-34 years (27 percent), 55-64 years (14 percent), and 65 years or over (11 percent). The age distribution of WCAN beef group was virtually the same as all respondents (71).

6.3 Focus Groups

Two focus group sessions were held in Los Angeles during May, 1988; one with high-beef consumers (4-5 times per week) and the other with low-beef consumers (1-2 times per week). A third focus group was held in early-June, 1988, with the medium-beef consumers (2-4 times per week). The questionnaire utilized in the follow-up telephone call is located in Appendix E and the responses are tabulated in Appendix H. A brief summary of some of the findings of this research follows.

Lean Beef

In general, there was a preference for leaner beef for health and nutritional reasons. However, there was concern in each group that the great taste of beef would deteriorate as the beef became leaner. All three groups had a difficult time understanding the concept of lean-produced beef. Leanness was associated with the amount of trim on a cut. Those participants who understood that some cattle are produced lean, questioned the ranchers' methods, and asked if they used chemicals. In general, the participants did not think it was natural to raise cattle in this way.

Natural Beef

Naturally-produced beef was preferred, but consumers would not pay more than 10 percent premium for natural beef. There was some concern, especially among the low- and average-beef consumers, the natural beef may be a gimmick. Again, consumers were afraid of what they did not understand, and were curious as to what made natural beef different. In fact, some consumers thought that "organic" may be a better word than "natural" to describe beef produced without hormones or antibiotics. Other participants felt that organic was too "sophisticated" a term and people with less education would associate "organic" with chemicals. It was also suggested that both terms be discarded and that the product simply be described rather than labelled.

USDA Grades

USDA grades were neither important nor well understood among the focus group participants. All three groups tended to associate USDA grades with safety or health inspections. Thus, a cut of beef that was labelled "non-graded" might be misinterpreted to mean non-inspected. Many participants indicated a strong mistrust of government grades. USDA grades did not play an important role in the purchasing decisions.

Brand Names

None of the focus groups perceived brand names on beef products as important or helpful. Participants had a difficult time naming current brands. Freshness was a much more important factor in the beef-buying decision, with color, touch, and smell, being the three main factors used to determine freshness.

Imported Beef

There was no resistance to purchasing beef produced in Western Canada, although questions were raised about beef produced in some other countries. Canada is perceived as being a "good" country, meaning they have similar customs and a similar language. All three groups also perceived Canada as an environmentally clean country. Some questions were raised, however, about inspection procedures and restrictions on Canadian beef entering the U.S.

Beef Comparisons

Based on visual presentation and taste tests, Saskatchewan beef was rated above Select Natural Beef and Choice Beef among high-beef users. Among low-beef users, Saskatchewan beef was rated above Choice Beef and below Select Natural Beef. [Taste tests were only conducted in focus groups #1 and #2.]

Nutritional Labeling

Although nutritional labeling of beef was generally viewed as desirable and preferable by the participating consumers, there was concern that it would increase the already high price of beef. Some participants indicated that nutritional labeling would help as they shop for foods to make up a balanced diet.

High-Energy Food

Most consumers in the high-consumption focus group perceived beef as a high-energy food necessary for the human body to develop and sustain strength. Although many of the low and average-beef consumers agreed, there were those people who thought there were many other types of meat that were comparable to beef in nutritional value.

High-Beef Consumers

The following points were emphasized by this group:

- Nutritional advantages of beef: "A good lean piece of meat is important to the diet."
- Beef produced on the wide open ranges (e.g.., Wyoming) with fewer chemicals and hormones is better than that produced in California feedlots.
- They would pay 10 percent higher prices (but not more) for "lean" or "natural" beef.

Low-Beef Consumer

This group emphasized three main reasons for their low consumption of beef. They were as follows:

- Convenience: Beef takes a long time to cook and clean up, and it cannot be stored for a long period of time.
- Price: Beef is too expensive. In fact, many consumers said their consumption would increase if beef prices decreased.
- Nutrition: These consumers are concerned about the fat content in beef. They want "Lite" nutritious meals to go with their active life styles.

Medium-Beef Consumers

The following points were emphasized by this group:

- Media and Promotion: They admit to being influenced by the barrage of negative media attention that surrounds beef. They would increase their consumption of beef if new information came out portraying beef in a more positive light, i.e., more nutritious. This group was also very receptive to new beef recipes.
- Lean Beef: The participants defined lean beef as containing less than 10 percent fat. They were afraid that cattlemen would have to treat the cattle with chemicals to get them "skinny." Consequently, there was some concern that the cattle would not be healthy. They suggested using "lower-fat" rather than "lean" to describe lean beef. The word "lean" spawned visions of emaciated animals.

Follow-up Telephone Calls to Focus Group Participants

Participants in the first and second focus groups were given a steak from a beef loin shipped from Saskatchewan to Southern California by Intercontinental Packers Ltd. The focus group participants were asked to take the steak home and prepare it however they chose. Approximately one week later, they were questioned by telephone on their perceptions of the sample steak (Questionnaire in Appendix E). The responses are summarized below (Summary table, Appendix H).

Almost one-half of those questioned broiled the sample steak, 27 percent pan fried it, 18 percent barbecued, and 9 percent pan broiled it (72). Forty five percent of the respondents rated the sample steak "good", followed by "only fair" (27 percent), and excellent (18 percent) (73). When asked why they rated the steak the way they did, 29 percent of the respondents replied it "tasted good," followed by 42 percent who said it "was not tender" (21 percent) or it "lacked taste" (21 percent). Other reasons such as it was "tender," "dry," and "grainy," were also cited (74).

Consumers were divided on how the sample steak compared with the beef they usually eat, with about one-half claiming it was "better" and the other one-half contending it was "not as good" (75). An array of reasons were given as to why consumers felt the steak was better or worse than the beef they now eat, including "better flavor," "lacked flavor," "healthier," "more tender," "leaner," "richer," etc. (76)

More than one-half of those questioned said they would buy the sample beef if available, 36 percent said "no," and 1 person said "yes" if it was cut thicker (77). Four out of the seven people who said they would buy the steak said they would pay about 10 percent more (78,79).

Forty-five percent of the respondents said they eat beef 1-2 times per week, while 54 percent said they eat beef 4-5 times per week (80).

All the respondents shopped at different stores with the exception of two people who shopped at the Giant and three who shopped at Lucky (81).

6.4 Conclusions and Implications

1. Southern Californians eat beef an average of 2-3 times per week as part of a main meal. Those opting not to eat beef do so primarily for health reasons. There is a growing concern among North American consumers about dietary levels of saturated fats and cholesterol. Consequently, beef suppliers should promote the nutritional aspects of beef in small portions, while developing differentiated beef products that target the health-conscious consumer. Specifically, the lower fat and cholesterol content of beef which is **produced-lean** (rather than trimmed lean) needs to be documented and promoted.

2. When shopping for beef, Southern Californians generally choose a supermarket near their homes. Supermarkets such as Von's, Lucky, and Ralph's are favorites because of their presence in local neighborhoods. Other reasons for shopping at specific stores are the quality of the beef, low prices,and the convenience of shopping for all household needs at one location. A beef marketing program needs to focus on the specific demands of shoppers in a given market area; for example, leaner beef preferences of Hispanic consumers in East and Southwest Los Angeles.

3. A primary factor influencing the beef purchasing decision is appearance. Consumers look first at the amount of external fat on a piece of beef (primarily

determined by the amount of trim), then the color. The preferred color is bright red.

Packaging, portion size, and price are also evaluated when buying beef. Southern Californians are generally divided in their packaging preference between pre-wrapped and butcher-serviced beef. Portion size is important to 70 percent of the consumers and very important to two-member families, which make up approximately 30 percent of the households. When determining value for price, the majority of Californians consider price per pound rather than the cost per serving.

Thus, a marketable steak in Southern California is lean (that is, little external fat), reasonably priced, bright red in color, and sold in portions for 1-2 or 3-4 people. Again, the opportunity exists to differentiate between beef which is **trimmed lean** and **produced lean** through in-store information and promotion (where 80 percent of the consumers' buying decisions are made) and cooperative media advertising with retailers.

4. Most Southern Californians are fairly well-satisfied with the level of fat trim on the beef they purchase. However, most consumers also trim their beef before cooking or before eating. There is a market for those consumers who would prefer leaner beef, especially products which are produced lean.

   It is unlikely, however, that lean-produced Canadian beef would cause many Southern Californians to increase their total beef consumption, or that they would pay a price premium over 10 percent for such a product. Consequently, a Canadian lean beef product would need to be competitively priced, and promoted to differentiate the product and to educate consumers on its nutritional advantages. It would also have to be reasonably tender and juicy. (Some of the focus group participants found the Saskatchewan beef to be tougher and drier than they prefer).

5. There was a great deal of confusion about USDA grades among consumers. Consumers generally do not understand what the grades represent, associating them with hygiene inspection standards rather than beef quality differences and fat content. The most commonly selected USDA grade is "Choice".

In light of the large volume of no-roll beef marketed in the U.S., it is unlikely that the absence of USDA grades on Canadian beef would be a significant deterrent to a successful marketing program. Substantial volumes of Western Canadian beef slaughtered and boxed in IBP plants in Washington and Idaho are sold in Southern California. Some of it is USDA graded and some is no-roll product.

6. Although the majority of consumers are concerned about antibiotics and growth stimulants in beef, few people know the term "natural" beef. As consumers comprehend natural beef their interest increases substantially. However, their total beef consumption would remain about the same, with consumers more likely to substitute natural beef for the beef they are currently eating. Also, consumers indicated they are only willing to pay 1-10 percent more for natural beef than for the types of beef they now purchase. This response demonstrates why vendors offering natural beef products in Southern California at price premiums above 10 percent have not been successful.

7. Canadian beef products are viewed very favorably by most Southern Californians. Consumers perceive Canada to be a large Anglo-Saxon country with wide-open prairies and clean air. However, there are two reservations commonly expressed about Canadian beef:

    - Freshness related to concerns about shipping distances to California ; and,
    - Quality control concerns regarding the inspection procedures which the product must undergo before entering the U.S.

    Consumer education and promotion could deal with these two concerns very easily.

A profile of the potential Canadian Beef Consumer (developed from the consumer survey) is located in Appendix I.

7.0 SASKATCHEWAN'S CURRENT AND POTENTIAL PRODUCTION CAPABILITY

Table 7.1 outlines the number of beef cattle on Saskatchewan farms on January 1 of each year from 1979 to 1988. Total beef cattle numbers ranged from a low of 1,598,000 in 1987 to a high of 1,934,000 head in 1980. Beef cattle numbers were up for 1988 (from 1987) to 1,684,000.

Tables 7.2 and 7.3 identify the destination of feeder cattle and slaughter cattle marketed in the province between 1976 and 1987. The percentage of feeder cattle which stayed in the province remained relatively constant at between 30 and 35 percent between 1976 and 1985. In 1986 and 1987, the percentage of feeder cattle which remained in the province increased substantially. In 1986, approximately 50 percent remained in the province. In 1987, the number was 55%. The increase in the past two years coincided with very low grain prices.

The total number of slaughter cattle marketed in the province increased by 27 percent in 1982[1] then dropped back somewhat in 1983. Total marketings of slaughter cattle have fluctuated between a low of 402,890 (1983) and a high of 449, 940 (1984) since 1982. The percentage of finished cattle (produced in the province) which have been slaughtered in Saskatchewan has fluctuated between 60 and 70 percent since 1979. In terms of actual number slaughtered, there has been a relatively steady increase since 1979 (197,095 in 1979 to 292,960 in 1987).

In late May and early June, interviews were conducted with a number of cow-calf producers and feedlot operators, and representatives from Saskatchewan Agriculture, the Saskatchewan Stock Growers Association, the Saskatchewan Cattle Feeders Association, the Saskatchewan Beef Stabilization Board and the Saskatchewan Wheat Pool, Livestock Division.

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[1] This large increase coincided with the introduction of the Saskatchewan Beef Stabilization Board.

TABLE 7.1

BEEF CATTLE ON FARMS IN SASKATCHEWAN
JANUARY 1, 1979 - 1988

Years	Bulls	Cows	Heifers	Steers	Calves	Total
			-------Thousand Head-------			
1979	40.0	930.0	163.0	124.0	635.0	1892
1980	41.0	945.0	180.0	115.0	653.0	1934
1981	40.0	930.0	168.0	104.0	625.0	1867
1982	40.0	916.0	166.5	127.0	679.0	1928
1983	40.0	840.0	165.0	131.0	645.0	1824
1984	40.0	830.0	165.0	135.0	645.0	1815
1985	38.0	785.0	160.0	128.0	587.0	1698
1986	37.0	760.0	154.0	110.0	590.0	1651
1987	37.0	755.0	120.0	115.0	571.0	1598
1988	38.0	790.0	130.0	112.0	614.0	1684

Source: Statistics Canada 23-008

TABLE 7.2

SASKATCHEWAN FEEDER CATTLE MARKETINGS BY DESTINATION

1976-1987

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (est)
Destination						-------Number of Head-------						
Saskatchewan	204,801	284,185	276,813	341,183	238,857	219,880	213,710	245,190	235,250	234,870	318,930	404,700
(% of Total)	27%	30%	29%	38%	27%	31%	29%	37%	33%	35%	50%	55%
Alberta	192,162	208,201	227,052	206,331	221,887	189,800	168,930	161,390	199,010	150,200	137,220	182,360
Manitoba	71,895	92,393	44,845	40,349	50,669	43,370	42,440	33,600	25,620	22,340	24,880	23,490
Ontario	252,296	278,467	356,006	270,453	343,732	223,250	244,680	210,760	223,620	197,630	145,190	116,000
Other Provinces	5,110	4,113	3,165	2,202	4,689	6,750	9,150	8,070	11,660	10,740	7,230	3,750
U.S.A.	26,650	75,748	31,038	17,477	23,027	23,110	37,440	6,260	6,130	42,650	1,480	410
Total	752,914	943,107	938,919	877,995	882,861	706,160	716,350	665,270	701,290	658,430	634,930	730,710

Source: Saskatchewan Agriculture, *Agricultural Statistics*, various annual issues, 1978-87

TABLE 7.3

SASKATCHEWAN SLAUGHTER CATTLE MARKETINGS BY DESTINATION
1976-1987

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (est)
Destination	-------Number of Head-------											
Saskatchewan	202,513	213,930	233,063	197,095	205,674	220,190	252,830	250,090	271,760	274,440	265,040	292,960
(% of Total)	33%	38%	55%	63%	61%	65%	58%	62%	60%	65%	65%	70%
Alberta	47,589	39,546	28,933	26,277	25,078	20,680	28,250	27,280	20,890	13,350	10,810	38,160
Manitoba	262,803	228,068	116,540	73,577	80,261	79,340	123,770	110,870	113,890	112,480	109,810	63,080
Ontario	27,501	24,427	15,295	5,868	12,710	5,510	8,960	3,620	17,000	3,310	8,470	9,830
Other Provinces	2,270	435	227	71	1,626	1,890	850	290	630	380	40	1,090
U.S.A.	62,356	55,484	27,580	5,685	9,547	13,020	20,050	10,740	25,770	18,020	11,510	12,130
Total	605,032	561,890	421,638	308,573	334,896	340,630	434,710	402,890	449,940	421,980	405,680	417,250

Source: Saskatchewan Agriculture, *Agricultural Statistics*, various annual issues, 1978-87

7.1 Current and Potential Capacity

It was the unanimous view of the individuals interviewed that resources were not a limiting factor to the number of cattle Saskatchewan could produce or feed. It was felt that Saskatchewan could produce and feed far more than the existing marketing channels in the province could handle. The key factor is long term profitability.

Cow/Calf Capacity

Historically, grain price levels have had a major influence on expansion and/or contraction in the livestock sector in Saskatchewan. The expansion of cow/calf numbers has and will in the future also depend upon factors such as the existence of a market and adequate feed supply. In the opinion of a cow/calf producer from the north-central region of the province, a consistent, high quality feed and feeder cattle supply could be established if that area of the province which consistently produces #3 or lower grades of wheat were converted to the production of feed grains and feeder cattle.

Feedlot Capacity[1]

Saskatchewan Agriculture, the Saskatchewan Beef Stabilization Board, the Saskatchewan Cattle Feeders Association and the Agricultural Credit Corporation of Saskatchewan were contacted in our efforts to determine the current profile of Saskatchewan's feedlot industry. Although none of the organizations had the complete information compiled, we were able to obtain the following breakdown, by size, for the members of the Saskatchewan Cattle Feeders Association. On the assumption that the majority of the larger feedlots in Saskatchewan are members of the Association, we believe this breakdown to be a reasonable proxy for the profile of the current cattle feeding industry in the province.

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[1] For the purposes of this section, a feedlot was defined as an operation that has the capacity to finish 500 head or more at one time.

One-time Capacity	**Estimated Number of Feedlots**
500 - 2000 head	70
2,000 - 5,000 head	15
Over 5,000 head	5 [illegible]

We have developed an estimate of Saskatchewan's total feedlot capacity by making the following assumptions:

1. The total one time capacity of the "over 5000 head" feedlots is estimated to be 35,000.
2. The average one time capacity of the "2000 - 5000 head" feedlots is estimated to be 3500 [(2000 +5000)/2].
3. The average one time capacity of the "500 - 2000 head" feedlots is estimated to be 1250 [(500+2000)/2]. This methodology is consistent with (2) above and provides a result which agrees with the Cattle Feeders' estimate that the majority of the feedlots in the 500 to 2000 range are capable of feeding 1200 to 1300 head.

On the basis of the above, we estimated the one time capacity of Saskatchewan feedlots to be approximately 175,000 head. This estimate is biased low to the extent that there are major feedlots in the province which do not belong to the Saskatchewan Cattle Feeders Association although in our attempt to cross-reference names we were unable to identify any.

We used 1987 sales data to estimate the percentage of feedlot capacity which is currently being utilized.

Total 1987 sales of slaughter steers and heifers	301,150
Estimated slaughter steers and heifers from non-feedlots[1]	100,000
Estimated slaughter steers and heifers fed in Saskatchewan feedlots	201,150

This number is virtually non-quantifiable. It is a "best estimate", based on our discussions with government and industry representatives. Interviewees suggested a high percentage of cattle fed in the province come from producers that market less than 50 head per year.

Assuming an average turnover rate of 1.6[1], the average number of cattle on feed at any one time would be approximately 125,000.[2] If total one time capacity is 175,000, average utilization rate is approximately 70 percent.[3] Stated in terms of the number of head, we estimate that Saskatchewan currently has the feedlot capacity to feed an additional 80,000[4] cattle [(175,000-125,000) x 1.6] per year.

This estimate overstates the actual excess capacity in two ways: (1) because of spring calving, feeder cattle tend to be in shorter supply during the summer months and therefore fewer cattle are fed in the summer; and (2) some excess capacity is necessary to allow for movement of cattle into and out of the feedlot.

Although the above estimates are largely a subjective assessment, we are confident that there exists adequate feedlot capacity to accommodate moderate expansion of the cattle feeding industry in the province without significant additional investment. Were additional capacity required, most of the existing operations could expand their capacity by 5 to 10 percent with very little capital investment.

Plans for Expansion

Only one of the five major feedlots interviewed had plans to expand further in the near future. This potential expansion will be dependent on the establishment of an ethanol plant. If the ethanol plant is established, the feedlot intends to expand from 8,500 head to 12,000 head capacity. There are plans for a new feedlot to be established in central Saskatchewan near Central Butte. It is our understanding that the plan is to begin operations with 10,000 head capacity and expand to 20,000 as conditions permit.

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[1] This estimate was provided by a government official.

[2] This calculation does not account for the (assumed) relatively small amount of feedlot capacity which is dedicated to feeding cows for slaughter.

[3] Saskatchewan's largest feedlot, with a capacity of 10,000 head, has only had 6,800 cattle on feed at one time; that is, 68% of capacity. (This information was provided in an interview with the feedlot operator). Reasons for not keeping the feedlot full were given as: (1) the high price of feeder cattle; and, (2) the uncertainties during 1987 with regard to possible changes to provincial beef stabilization program.

[4] Some industry participants suggested an average turnover rate of 1.8 to 2. At a turnover rate of 1.8, excess capacity increases to 113,000 head per year. At a turnover rate of 2, excess capacity increases to 150,000 head per year.

With the drought conditions in several areas of the province at the time the interviews were undertaken, it was difficult to obtain any commitment from cow/calf producers regarding their expansion plans. Previously envisioned expansion plans may have been put on hold due to the lack of assurance of adequate supplies of feed.

One of the major concerns regarding expansion potential was the degree and type of commitment, both currently and in the future, the Saskatchewan government is prepared to make to the Saskatchewan cattle feeding industry. The focus of this concern seemed to center around the future status of the Saskatchewan Beef Stabilization Program (refer to Section 7.2).

7.2 Livestock Policy Environment

As is the case with all industries, government policy affects investment decisions in the agricultural industry. This section will outline government programs and policies, implemented since 1982, which have affected or have the potential to affect the cattle industry in Saskatchewan.

Provincial Taxation Policies

Livestock Investment Tax Credit: The purpose of this policy is to encourage the feeding of livestock in the province. Saskatchewan taxpayers receive a provincial tax credit of $25 per head for slaughter steers and heifers. The credit also applies in varying amounts to hogs and lambs.

Livestock Facilities Tax Credit: The purpose of this tax credit is to stimulate investment in livestock facilities. A 15 percent tax credit is available to all taxpayers resident in Saskatchewan who have acquired or built eligible facilities.

Venture Capital Tax Credit: Cattle feeding is considered a "qualifying activity" and therefore allows an investor in a Venture Capital Corporation which is feeding cattle to receive a 30 percent provincial tax credit on the initial investment.

Provincial Financing Programs

Livestock Cash Advance: This program is designed to improve the cashflow position of livestock producers and thereby allow them to retain their herds. The advance is $125 per beef animal on a maximum of 70 percent of the herd.

Feeder Associations and Loan Guarantees: The feeder associations program was established to promote and support cattle feeding in the province. The provincial government guarantees 25 percent of a feeder association's authorized borrowings from financial institutions.

Investment Loan Program: This program provides long term loans of up to $8 million for farmers investing in joint livestock operations. The loan can be used to establish or expand primary livestock operations through purchase of improved livestock facilities, livestock equipment and breeding stock. Feeder animals are not eligible. The interest rate is 9.75% and security to a minimum of 135 percent of the loan value must be provided.

Saskatchewan Beef Stabilization Board[1]

Until April, 1988, the program provided insurance to the level of 100 percent of cash costs and 50 percent of non-cash costs. Costs, as defined by the program, are based on a formula derived by the Saskatchewan Beef Stabilization Board (SBSB). The program is being revised at the present time. Proposed revisions involve the consideration of 95 percent of all costs rather than 100 percent of cash costs and 50 percent of non-cash costs (the current program) in determining payout levels.

Industry Views Regarding Stabilization

Regardless of the theoretical versus the actual workings of the SBSB, there are some very strong viewpoints on the effects the Board has had and will have on the Saskatchewan beef industry. The following list highlights the views of

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Feeder to Finish Program.

interviewees regarding the SBSB and its likely effect on the future development of the beef industry in the province:

- For small feeders (who form the majority in Saskatchewan), their numbers do not allow for marketing options which may be available to larger sized feeders. The SBSB marketing system has been helpful to those producers.

- Due to the existence of the central selling desk, there is concern about the lack of communication between the packers and the feeders. Some feedlots reported that packers never visit the feedlot any more. (Canada Packers conducted area meetings with feeders in 1987 and 1988.)

- Concern was expressed that the SBSB has allowed feeders to become very relaxed in both their marketing awareness and their marketing effort. Many feeders have assumed that the Board will market their cattle at a point at which optimum returns will be realized. This is not necessarily the case as feeders who disregarded the A2 discount have become aware.

- The workings of the formula have allowed inefficient producers to exist. Persons have been able to buy cattle at higher than economically feasible prices and have had the cost of that questionable buying decision covered by the stabilization program.

- Unilateral changes can be made to the formula. The Board maintains that it advises participants as soon as possible. There was some consternation over the changes made April 1, 1988 in that cattle purchased prior to that date were switched to the new formula thus changing the assumptions used when the buy decision was made.

National Tripartite Stabilization

The Government of Saskatchewan publicly stated its desire to join the National Tripartite Stabilization Program over a year ago. At that time, the province expressed concerns regarding the late entry provisions and certain administrative aspects of the program.

Saskatchewan's interest in joining Tripartite has been reiterated at meetings held during the summer of 1988; in particular, the meeting of Federal and Provincial Agricultural Ministers held in Toronto in July, 1988. Saskatchewan stated its interest in joining the plan providing: (1) it is given time to phase out its existing provincial plan; and, (2) no up-front payment would be required. The latter concern relates to the penalties for late entry which would be levied under the current regulations.

Negotiations regarding Saskatchewan's entry into the Federal program are currently underway. Saskatchewan government officials confirmed that some form of provincial stabilization will be available to the province's beef producers if the negotiations are not successful.

7.3 Management Ability

The interviews indicated there is a broad range of management ability and a wide variety of management techniques utilized by Saskatchewan cattle feeders. There is a positive correlation between size (>500 head) and the awareness (and application) of more sophisticated management systems and technology. Generally those feeders who are custom feeding (generally larger) appeared to be some of the better informed.

Characteristics of Larger Feedlots:

- use of computers
- detailed costing analysis
- use of forward contracting - more often utilized in acquiring feed supplies than selling cattle
- awareness of the provincial stabilization formulae and the ability to forecast payouts
- mixing of rations on the farm
- more awareness of feeder cattle markets - some out of province buying of feeders

Characteristics of Smaller Feedlots:

- less awareness of new technology-disease prevention, computers
- manual record keeping, therefore less timely information on which to base decisions

- often operates a mixed farm (grain and cattle) therefore not always applying appropriate accounting to the feeding operation
- feed supply produced themselves
- little forward contracting of feed supplies

7.4 Attitudes Regarding an Expanded Saskatchewan Beef Industry

The interviews were conducted with expansion of the market meaning expanding into the U.S. Although interviewees reacted positively to the notion of more cattle being fed and slaughtered in the province and an expanded market for Saskatchewan beef, there were several comments and concerns raised. Some of these comments reflected the level of sophistication or the general philosophy of the people making them but the comments are reported here to give an overview of the prevailing attitudes of Saskatchewan beef producers. The comments concern the actual method of implementation of a program to expand the production and marketing of beef in Saskatchewan.

Industry Perceptions

- Saskatchewan has a strong base of cow/calf producers who know the individual potential of their cows. This enables them to breed for specific demands.

- Saskatchewan can differentiate its product with respect to leanness. Saskatchewan can also differentiate its product with service. Once the structure is in place the climate allows for supply to be guaranteed 12 months of the year.

- If consumers are concerned about chemicals and additives, Saskatchewan can market the fact that calves are raised on farms and fed clean grain.

- Most felt there were no particular disadvantages to the Free Trade Agreement. Beef has essentially operated under free trade in the past. Positive factors mentioned were that meat plant inspection requirements will be equal in both countries. Canada has the higher standard of herd health and this will be maintained.

- Concern was expressed that the U.S. was already moving towards producing a leaner beef product and that if Saskatchewan does not act quickly, any advantage which the province currently has will disappear.

- Along the same lines, one producer mentioned that the relaxing of the Japanese meat import laws with regard to the U.S. will help to maintain the American demand for Saskatchewan beef as the U.S. will likely step up its beef exports to Japan.

- Exchange rates were mentioned by several people. Some felt the recent upward movement of the Canadian dollar could be a significant disadvantage to Saskatchewan. Others felt that although there may be some short term pain, as long as the rates stabilize with the Canadian rate being lower than the U.S., there will be no long-term disadvantage.

7.5 Saskatchewan Wheat Pool - Involvement in the Saskatchewan Beef Industry

The Saskatchewan Wheat Pool has been actively involved in the livestock business since 1944, initially as a member of the Saskatchewan Cooperative Livestock Producers Association. SWP later took over that organization and opened commission firms in Prince Albert, Saskatoon and Moose Jaw. The next major step was the building of the SWP stockyard in Regina.

Current operations include Moosomin ownership of nine marketing centres (Regina, Prince Albert, Moose Jaw, Yorkton, Swift Current, Moosimin, Kindersley, North Battleford and Lloydminster) and a 25 percent ownership in Saskatoon Livestock Sales Ltd. Twenty to twenty five livestock sales are also conducted each year for the Meadow Lake Agricultural Society.

Prior to the establishment of the Saskatchewan Beef Stabilization Board in 1982, SWP handled approximately 50 percent of the slaughter and feeder cattle marketed in Saskatchewan. Since 1982, the majority of marketings have been feeder cattle and cull cows. To July 31, 1988 (year end), the Pool handled 440,000 head[1] which was an increase of 55,000 from the 385,000 which were handled during the same period in 1987.

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[1] These figures were obtained from the Livestock Division of Saskatchewan Wheat Pool and do not include marketings from Saskatoon Livestock Sales Ltd.

In the year ended July 31, 1988, SWP handled 37 percent of Saskatchewan's total cattle marketings, a figure which illustrates the importance of SWP's livestock operation to the Saskatchewan beef industry.

SWP attributes their success in the beef industry to two main factors:

Feeder Finance Program

SWP officials attributed the fact that SWP is the largest single buyer of feeder cattle in the province to the popularity of the feeder finance program. In the year ended July 31, 1988, 107,000 head were financed through the program (1987 - 99,000 head). This represented $65 million in 1988 (1987 - $54 million). In the twenty years which the program has been operating, 800,000 cattle have been financed at a value of $300 million.

SWP will finance the purchase of feeder cattle for its members providing the potential recipient can demonstrate that he has adequate feed and water supply. Terms are: (1) 10 percent down for established customers who belong to the Saskatchewan Stabilization Program; or, (2) 15 percent for new customers and those who do not belong to the Stabilization Program. The interest rate is 1/2 of 1 percent over prime, effective the day the contract is made with repayment of principal and interest due when the cattle are sold. The rate is fixed and there is no penalty for early payment.

Other charges associated with the feeder finance program include:

- Buying commission of $0.75 per cwt.

- Administration fee of $10.00. This fee includes: (1) a pre-charged selling commission which allows the farmer to sell with no further commissions; (2) use of SWP facilities to assemble cattle for the purpose of selling through the Stabilization Board (alternatively, a person will be provided to sort cattle for sale through the Stabilization Board); (3) branding, eartagging and administration of vaccinations or implants (The farmer is charged for the product if he does not supply it); and, (4) registration of the contract.

Satellite T.V. Sales

Although not the first to try selling livestock via satellite, SWP was the first to provide the service on a continuous basis and, in many ways, pioneered the practical use of the technology. In the year ended July 31, 1988, satellite T.V. sales accounted for 12 percent of total SWP marketings.

The last three years have seen a major expansion of the role of satellite T.V. sales as the following statistics indicate:

Year Ended	Sales	Head Sold
July, 1986	10	18,000
July, 1987	16	33,000
July,1988	23	47,000

Satellite sales have been popular because they have brought together buyers and sellers from many locations in an efficient and cost effective manner. Currently, the sales are consistently beamed into two locations in Ontario. Alberta also receives the signal when it is felt to be appropropriate or advantageous. The cattle are pre-sorted and weighed into carload lots. This activity serves the dual purpose of: (1) providing larger lot sizes for the buyer; and (2) allowing smaller producers to sell their cattle as part of a larger lot and thereby have an opportunity to attract the higher prices often accorded larger lot sizes.

8.0 SASKATCHEWAN'S COMPETITIVE POSITION

8.1 Custom Feeding Rates in Saskatchewan, 1987 - 88

All custom feedlots interviewed operated on a fee for service basis. Fees charged for various services differed from feedlot to feedlot but, in general, appeared to be similar to fees charged for comparable services in Alberta feedlots[1].

Yardage

The basic charge was $0.15 per day. A few feedlots vary the yardage charges depending upon number of head fed. For example:

	less that100 head	$0.18
	100 - 200 head	$0.15
	200 - 500 head	$0.12
	more than 500 head	$0.10
or	less than 100 head	$0.15
	more than 100 head	$0.12

Processing/Start-up Fee

Some feedlots charged standard processing treatments at cost plus a chute fee ranging from $2.50 to $3.50. Others charged a processing fee of up to $9.00.

Feed Costs

One feedlot charged feed at cost plus a milling fee of $18/tonne. Another charged cost plus 10 percent. Other feedlots willingly gave current cost of feeds but would not disclose precise markups. Feed refers to grains, forage, and bedding.

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[1] The comparison with Alberta is important because of the fact that southern and south-central Alberta is the most concentrated feeding area in Western Canada. Alberta feedlots would be Saskatchewan's only Canadian competition for a Saskatchewan market thrust into the Western U.S.

Veterinary Costs

Treatments were generally provided at cost or cost plus 10 percent. One feedlot has a standard vet charge of $1.33 for every animal finished on their lot. Another operator charged a standard vet fee as part of the processing fee.

Buying and Selling Commission

None of the feedlots interviewed charged for buying or selling. This was considered a service to customers. The only charge would be that of the order buyer himself.

Death Loss Guarantees

Certain feedlots would provide a guarantee on cattle purchased by the feedlot for the customer. The details of one feedlot's policy is: credit is given if the death loss is greater than 1 1/2 percent on yearlings or 3 percent on calves.

8.2 Estimated Cost of Gain

The Saskatchewan Cattle Feeders Association Steer and Heifer Futurities:

This test began with cattle purchases in October 1986 and sales from March to October 1987. 1495 head were enrolled in the test. Six feedlots participated. The average cost per pound of gain was 54.4 (cents/lb.) with a standard deviation of 13.2. Cost of gain was defined as feeding cost plus yardage plus health treatment. The 54.4 cents per lb. of gain was similar to information provided during the interview process. This cost was obtained during a period of low barley prices.

Results of Saskatchewan Wheat Pool's Feeding Trial

SWP placed 160 head on a forage-based feeding trial at Viscount, Saskatchewan in the fall of 1987. The intent was to sell the cattle which were not treated as "natural" beef. Unfortunately, they were not marketable in that form because they could not be certified as "natural" (free from antibiotics or hormones) from the time they were born. Due to the fact that cattle which were treated were not removed from the pen, reliable cost of gain information for the production of treated versus non-treated animals was not available. Of the 160 head, 2 died, 80 were treated, 78 were not treated and 19 were sold as feeders. Average cost of gain for the group was 44.8 cents per lb. without interest.

8.3 Feedlot Profitability

The expectation of profitability is one of the major factors affecting investment. Investment is a prerequisite to the expansion of any industry; the livestock industry is no exception. While an analysis of feedlot profitability was not the major objective of this study, the potential for profitability will impact expansion (investment) which will in turn impact the marketing strategy options which are: (1) available and (2) most appropriate. Stated another way: In order to develop and execute a long term marketing strategy, one must be sure of a stable supply of product. Supply will only be stable if the production of that product is profitable over the long term.

Alberta is Saskatchewan's only Western Canadian competitor for market share therefore cost competitiveness with Alberta is important with regard to Saskatchewan's potential for expansion in the feedlot business.

We utilized data obtained from Canfax to compare the relative profitability of the feeding business in Saskatchewan and Alberta between 1983 and 1988. The results are documented in Table 8.1 and illustrated in Figure 8.1. These data which are updated monthly, depict the situation for a 1000 head feedlot in East-Central Alberta. We assumed the costs to be similar to those of a similar sized feedlot in Saskatchewan.

Profitability in the months of January and July was calculated for 1983 through 1988. This period was chosen because it covered the period during which the Saskatchewan Beef Stabilization Board was in place. The Alberta Government' "Crow Offset" program and the National Tripartite Stabilization program were also introduced during this period.

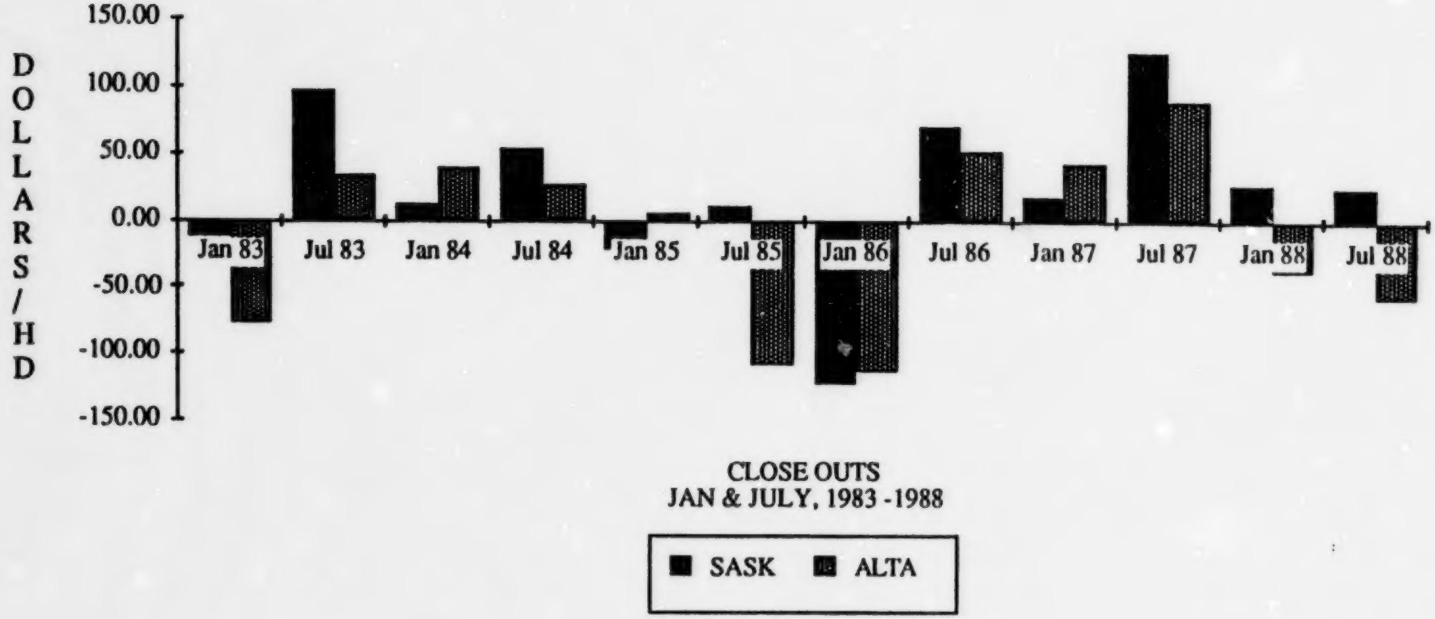
TABLE 8.1 - FEEDLOT PROFITABILITY

MONTH IN	May-82	Nov-82	May-83	Nov-83	May-84	Nov-84	May-85	Nov-85	May-86	Nov-86	May-87	Nov-87	AVE	AVE
MONTH OUT	Jan 83	Jul 83	Jan 84	Jul 84	Jan 85	Jul 85	Jan 86	Jul 86	Jan 87	Jul 87	Jan 88	Jul 88	Jan-83 Jul-88	Jan-86 Jul-88
COST OF FEEDER	364.50	351.86	397.67	380.52	401.49	381.29	423.00	376.65	426.15	476.60	580.59	589.50	429.15	574.50
FEEDER PRICE	81.00	78.19	88.37	84.56	89.22	84.73	94.00	83.70	94.70	105.91	129.02	131.00	95.37	127.67
SILAGE	36.85	29.22	30.21	37.85	41.17	44.99	45.75	38.10	33.53	22.10	25.15	19.81	33.73	36.89
BARLEY	195.80	155.23	160.52	201.10	218.74	239.02	243.08	202.51	178.25	117.48	133.71	105.31	179.23	196.07
SUPPLEMENT	28.20	27.84	30.12	31.44	27.48	27.60	25.92	24.96	30.72	23.76	24.36	24.24	27.22	30.79
COST OF FEED	260.85	212.29	220.85	270.39	287.39	311.61	314.75	265.56	242.50	163.34	183.22	149.36	240.18	263.75
FEED AND FEEDER	625.35	564.15	618.52	650.91	688.88	692.90	737.75	642.21	668.65	639.94	763.81	738.86	669.33	838.25
TRANSPORTION IN	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.78
VET AND MEDICINE	18.23	17.59	19.88	19.03	20.07	19.06	21.15	19.68	21.31	23.83	29.03	29.48	21.53	28.90
INTEREST	44.94	33.74	32.69	31.28	35.75	35.26	34.05	29.66	34.30	35.10	38.78	44.42	35.83	43.26
OVERHEAD	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	84.49	101.39
DEATH LOSS (1.5%)	5.47	5.28	5.97	5.71	6.02	5.72	6.35	5.65	6.39	7.15	8.71	8.84	6.44	8.62
TRANSPORT TO MARKET	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MARKETING CHARGES	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.20
INTEREST ADJUSTMENT	-4.29	-3.08	0.00	1.59	0.99	-3.19	-1.22	2.30	-2.36	-1.44	3.85	0.77	-0.51	0.38
TOTAL ALL COSTS	778.34	706.32	765.70	797.16	840.35	838.39	886.72	788.14	816.94	793.22	932.82	911.01	821.26	1025.77
SELLING PRICE TO COVER														
FEED AND FEEDER	59.56	53.73	58.91	61.99	65.61	65.99	70.26	61.16	63.68	60.95	72.74	70.37	63.75	79.83
ALL COSTS	74.13	67.27	72.92	75.92	80.03	79.85	84.45	75.06	77.80	75.54	88.84	86.76	78.22	97.69
COST PER CWT GAIN														
FEED	43.48	35.38	36.81	45.07	47.90	51.94	52.46	44.26	40.42	27.22	30.54	24.89	40.03	43.96
ALL COSTS	68.97	59.08	61.34	69.44	73.14	76.18	77.29	68.58	65.13	52.77	58.71	53.59	65.35	75.21
MARKET PRICE	66.90	70.64	76.68	78.58	80.65	69.62	73.76	75.05	78.33	80.63	78.16	75.81	75.40	92.35
NET MARGIN-BASE LEVEL	-7.23	3.37	3.76	2.66	0.62	-10.23	-10.69	-0.01	0.53	5.09	-10.68	-10.95	-2.81	-5.34
ADJUSTED FOR CROW OFFSET	-7.23	3.37	3.76	2.66	0.62	-10.23	-10.69	4.38	4.72	9.28	-6.49	-8.36	-1.18	-1.43
SASK														
PROFIT/(LOSS) PER HEAD	-75.92	35.40	39.44	27.93	6.47	-107.38	-112.24	-0.12	5.53	53.39	-112.14	-115.01	-29.55	-56.12
PLUS STAB (NET)	63.73	61.38	-26.15	25.54	-27.40	118.98	-9.21	69.88	12.59	72.31	139.46	140.20	53.44	85.05
SASK PROFIT/HD WITH STAB	**-12.19**	**96.78**	**13.29**	**53.47**	**-20.93**	**11.60**	**-121.45**	**69.76**	**18.12**	**125.70**	**27.32**	**25.19**	**23.89**	**28.93**
ALTA														
PROFIT/(LOSS) PER HEAD	-75.92	35.39	39.48	27.93	6.51	-107.42	-112.25	45.99	49.56	97.44	-68.15	-87.78	-12.43	-15.04
PLUS TRIPARTITE (NET)								6.60	-6.60	-7.40	30.11	30.11	4.40	10.56
ALTA PROFIT/HD WITH STAB	**-75.92**	**35.39**	**39.48**	**27.93**	**6.51**	**-107.42**	**-112.25**	**52.59**	**42.96**	**90.04**	**-38.04**	**-57.67**	**-8.03**	**-4.47**

Source: Canfax Trends Data

FIGURE 8.1

RELATIVE FEEDLOT PROFITABILITY



The major assumptions utilized in the Canfax model are:

Weight of feeder calves (steers)	450 lb.
Feeder cattle prices	Actual prices at time of purchase
Finished weight	1050 lb.
Days on feed	250 days
Yardage	$0.14 /day
Milling	$15.00/tonne
Finished cattle prices	Actual prices at time of close-out
"Crow Offset" is included in the feed cost calculation.	
National Tripartite is not included in the calculation.	

The base level net margin ($/cwt., live weight basis) was calculated by adjusting feed costs upward to account for the "Crow Offset". This provided the base level net margin for Saskatchewan. The net margin was then recalculated to include the "Crow Offset". This second calculation, net margin with "Crow Offset", provided the base level margin for Alberta. The base level profit for Saskatchewan was then calculated by multiplying the base level net margin by 1050 lb. (the assumed finished weight in the model). Actual SBSB payouts (net of $2.00 administration fee and 3% of gross sales commission) were averaged for each month and added to the base level profit to determine the profit per head with stabilization in Saskatchewan. A similar calculation was completed for Alberta utilizing the base level margin (adjusted for "Crow Offset") and the actual National Tripartite Stabilization payments (net of premiums) for the various months. ***These calculations were not intended to detemine absolute levels of profitability in each province. Rather, they were intended to illustrate relative profitability.***

The average over the 12 semi-annual periods reviewed was $23.89 per head profit in Saskatchewan and $8.03 per head loss in Alberta. For the 5 semi-annual periods between July 1986 (introduction of the "Crow Offset") and July 1988, the averages indicated a profit of $28.93 per head in Saskatchewan and a loss of $4.47 per head in Alberta.

Our obvious conclusion is that profitability in Saskatchewan's feedlot sector has compared very favorably with that in Alberta since the introduction of the Saskatchewan Beef Stabilization Board. The level of payments from the SBSB (relative to the combined level of support from "Crow Offset" plus Tripartite in Alberta) is the major reasonfor the difference in profit levles between the two provinces.

8.4 Processing

Interviews were conducted with representatives from the packing/processing industry in both Canada and the U.S. in order to determine the relative costs of slaughter and breaking in Canada and the U.S. Killing costs in Canada were estimated at between Cdn$ 30 and $35 per head including rendering. Comparative costs in the U.S. in the large, high through-put plants were estimated to be slightly less at between Cdn$ 25 and $30 per head. There appears to be a much larger differential in the costs of boxing in the two countries. Breaking costs in Canadian plants were estimated at about Cdn $80 per carcass. Comparative costs in the U.S. were estimated to be between Cdn $60 and $65.

Interviewees attributed the difference in costs to three main factors:

Labor Costs

> *Labor costs in the U.S., (particularly in the non-union plants) are less than they are in Canada.* Agriculture Canada reviewed the capacity and competitiveness of the Western Canadian packing industry in January of 1988[1]. Although the report did not differentiate slaughter and processing, it did conclude that the wages and benefit package paid by U.S. firms was between Cdn$ 4.00 and $6.00 per hour lower than the typical Canadian wage rate package. A study completed recently for the Alberta Cattle Commission, the Alberta Pork Producer's Marketing Board, and the Alberta Sheep and Wool Commission, compared recent collective agreements in larger packing companies in the United States with similar collective agreements in Canada.[2] Total labor costs per hour under the Canadian contracts in beef packing and boxing plants were estimated to be Cdn$ 16.24. The comparable cost in the U.S. was estimated to be Cdn$ 12.23.

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[1] Agriculture Canada, *Capacity and Competitiveness of the Western Canadian Red Meat Slaughtering Industry*, January, 1988.

[2] Summary of the *Study into the Impact of Labor Legislation on the Alberta Meat Packing and Processing Industry*, prepared for the Alberta Cattle Commission, the Alberta Pork Producer's Marketing Board, and the Alberta Sheep and Wool Commission, March, 1988

Economies of Scale

The large high through-put plants in the U.S. enjoy economies of scale which are not available to the smaller, older Canadian plants. Although there are no plants in Western Canada which compare in size with the largest of the U.S. plants, several Canadian companies have made significant capital investments in recent years which have increased the scale of their operations. Further investment is planned for the relatively near future. Although the Canadian plants will not be as large as those in the U.S. this additional investment should allow the Canadian companies to enjoy some additional economies of scale.

Labor Productivity

Labor's positive attitude to work which manifests itself in a higher level of output per manhour. Our interviewees did not agree with Dawson's[1] conclusion that labor productivity in Canada (measured as the volume of livestock handled per hour of labor employed) was higher than that of a comparable sized U.S.plant. While this study was not designed to be an indepth study of labor productivity, we did interview people whom have had experience in both U.S. and Canadian plants. Ongoing consolidations and the proliferation of non-union plants (which may be the result of more progressive management styles; that is, better management/labor relations) may have had a positive impact on labor productivity in the U.S. in the past five years.

8.5 Price Comparison - Saskatchewan versus U.S. Product into California

Actual daily FOB quotes were collected in the U.S. for both carcasses and selected (because they are an industry standard in the U.S.) boxed beef cuts for the 53 weeks ending the week of May 23, 1988. The selected cuts included[2] West Coast Chucks, 107 Ribs, 3 piece loins, and 161 Rounds. The U.S. carcass prices were first averaged to obtain a weekly average price and then adjusted for yield to make them comparable to prices for carcasses dressed to Canadian specifications. Freight was added and exchange rate adjustments (weekly averages) and metric conversions were applied in order to obtain prices basis c&f Los Angeles in Canadian Dollars. Cut prices were subject to all of the above adjustments except that applied to the carcass for yield.

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[1] Dawson, Dau and Associates, A Review of the Past and Current State of the Alberta Beef Processing Industry and Implications for the Future, January, 1984.

[2] IBP specifications.

Actual weekly prices FOB Saskatchewan were also collected for carcasses and regular primal cuts. The carcass prices required only an adjustment for freight and duty to make them comparable to U.S. prices derived as outlined above. The prices quoted for primals required an adjustment for labor and "by-product" (the trim removed in order to meet the cut specification) value and then an adjustment for freight and duty.

The following specific adjustments were made:

- As the Saskatchewan prices included an average 3 cts/lb for transportation costs, prices were adjusted downward to avoid double counting.

- All prices were converted to Canadian dollars by using average weekly exchange rates.

- The Saskatchewan prices were adjusted to reflect prices c&f California by adding 5.4 cts US/lb for transportation costs and 2.0 cts US/lb for import duty.

- The U.S. prices were increased by 2.0 cts US/lb to account for transportation costs to the Los Angeles area from U.S. midwest or northwest beef packing plants.[1]

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[1] Although 2.0 cts US/lb appears very low relative to freight costs from Saskatchewan to Southern California, we have confirmed the rate with industry participants in Southern California. The low freight cost results from competitive pressure from IBP and the fact that deregulation has taken place in the U.S.in the transportation sector.

IBP charges the same freight to any location form each plant. For example, freight on a load of ribs from the Pasco plant would be the same into Seattle or Los Angeles. The company handles large tonnages and uses independent truckers. The large tonnages allow the company to negotiate lower rates because much of their shipping is full loads to one destination, therefore turn-around time is kept to a minimum. Backhaul potential is also good from many of the locations to which IBP ships.

Figures 8.2 through 8.6 indicate that, for the period reviewed, Saskatchewan beef prices have generally **not** been competitive in the Los Angeles area with U.S. prices. (The tables which support Figures 8.2 throuth 8.6 are located in Appendix J). Canadian chucks (Figure 8.5) were priced below comparable U.S. product during only 6 of the 53 weeks surveyed. Chucks were the only cut which was ever priced under the equivalent U.S. cut during the period surveyed.

Over the 53 weeks reviewed, the Canadian product averaged above the U.S. product by the following amounts:

	Cdn cts /kg
• Carcass	61.15
• Loin	255.32
• Ribs	111.18
• Chuck	16.13
• Round	124.48

While the differential on carcass prices averaged only 61 cts/kg, Canadian primal cuts, (with the exception of chuck), were priced significantly higher than comparable U.S. cuts.

Figure 8.7 compares the percent of total carcass revenue which is derived from the 4 primal cuts in Canada and the U.S. For the 53 weeks surveyed, the percent of total carcass revenue derived from the primal cuts was approximately 7.25 percent higher that the comparable U.S. percentage. It appears that Saskatchewan (Canadian) beef processors take (or expect to take) a larger percentage of total carcass revenue from these four cuts than do their U.S. counterparts. Two explanations appear possible: either Canadian processors have to take a larger percentage of their revenue from these four cuts in order to cover higher processing costs; or, they simply expect larger profit margins.

FIGURE 8.2 - CARCASS PRICE DIFFERENTIAL

SASKATCHEWAN MINUS U.S. MIDWEST DELIVERED
LOS ANGELES

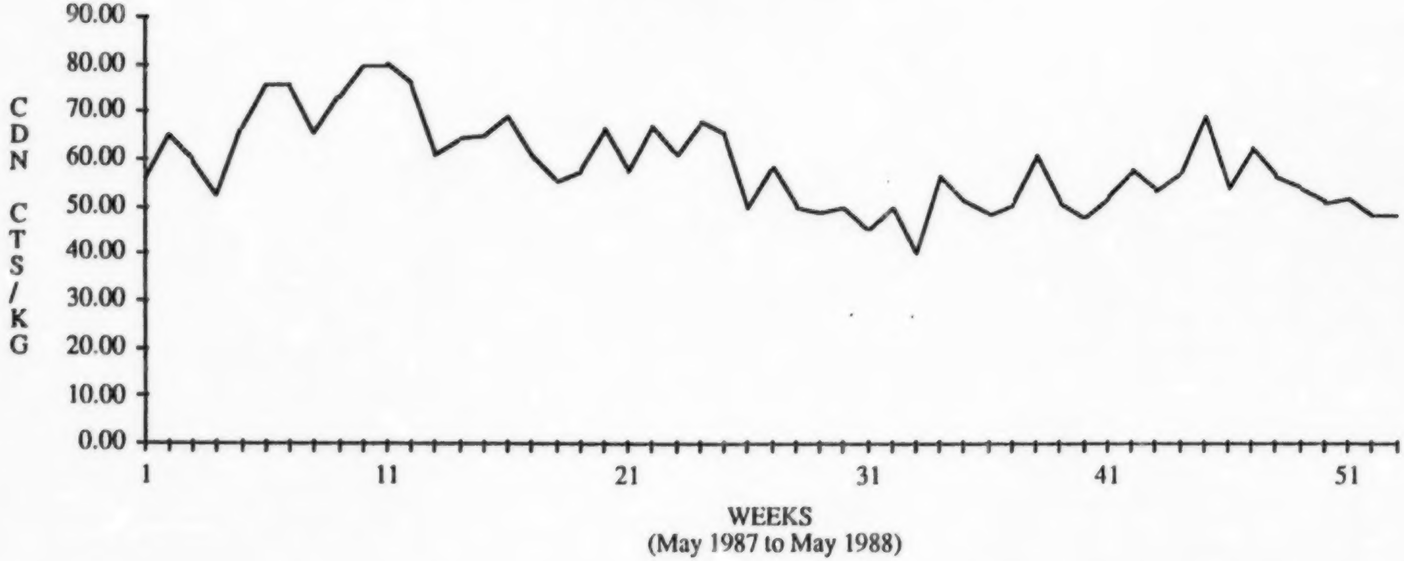


FIGURE 8.3 - LOIN PRICE DIFFERENTIAL

SASKATCHEWAN MINUS U.S. MIDWEST DELIVERED
LOS ANGELES

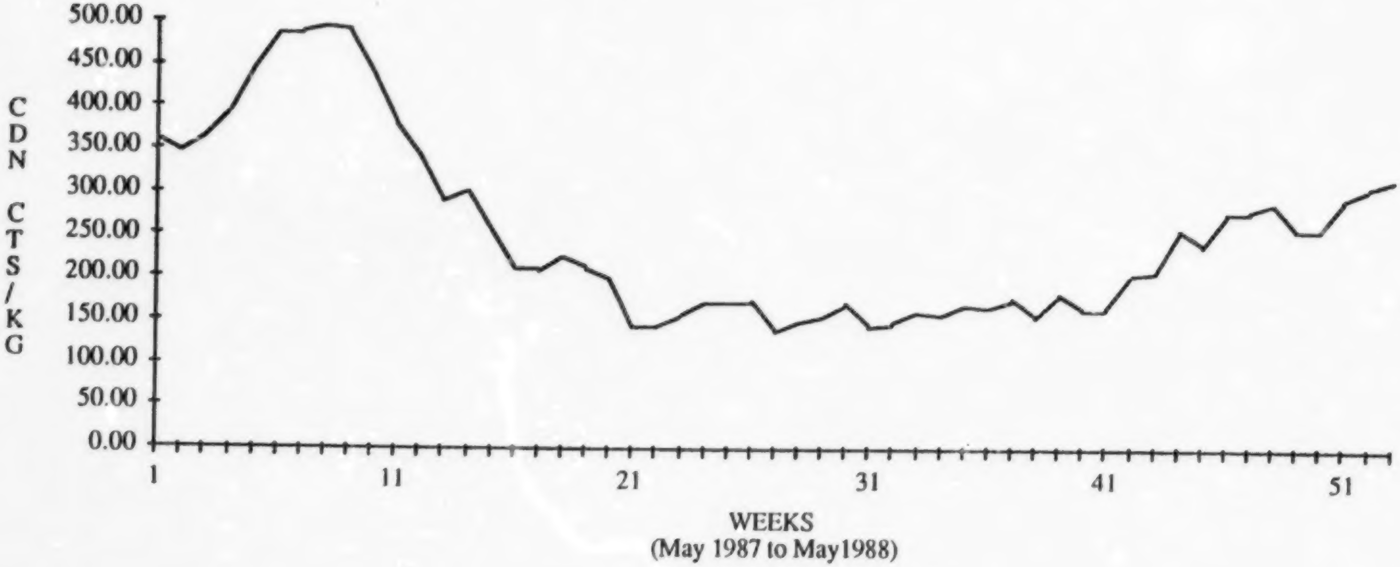


FIGURE 8.4 - RIB PRICE DIFFERENTIAL

SASKATCHEWAN MINUS U.S. MIDWEST DELIVERED
LOS ANGELES

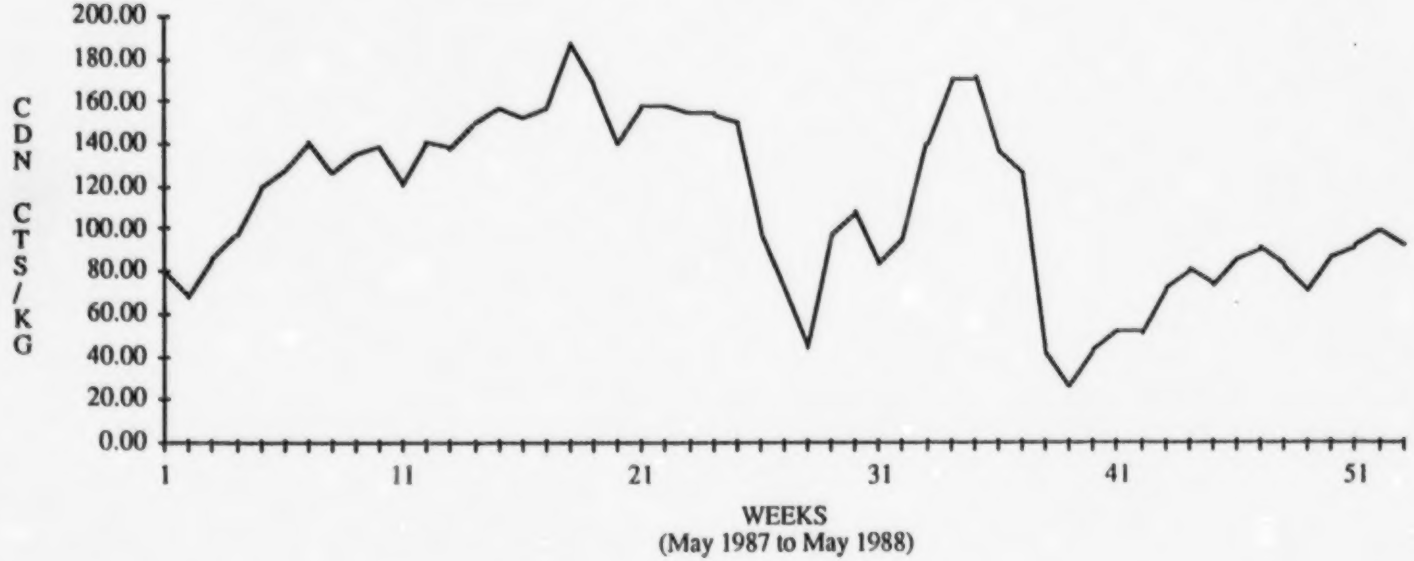


FIGURE 8.5 - CHUCK PRICE DIFFERENTIAL

SASKATCHEWAN MINUS U.S. MIDWEST DELIVERED
LOS ANGELES

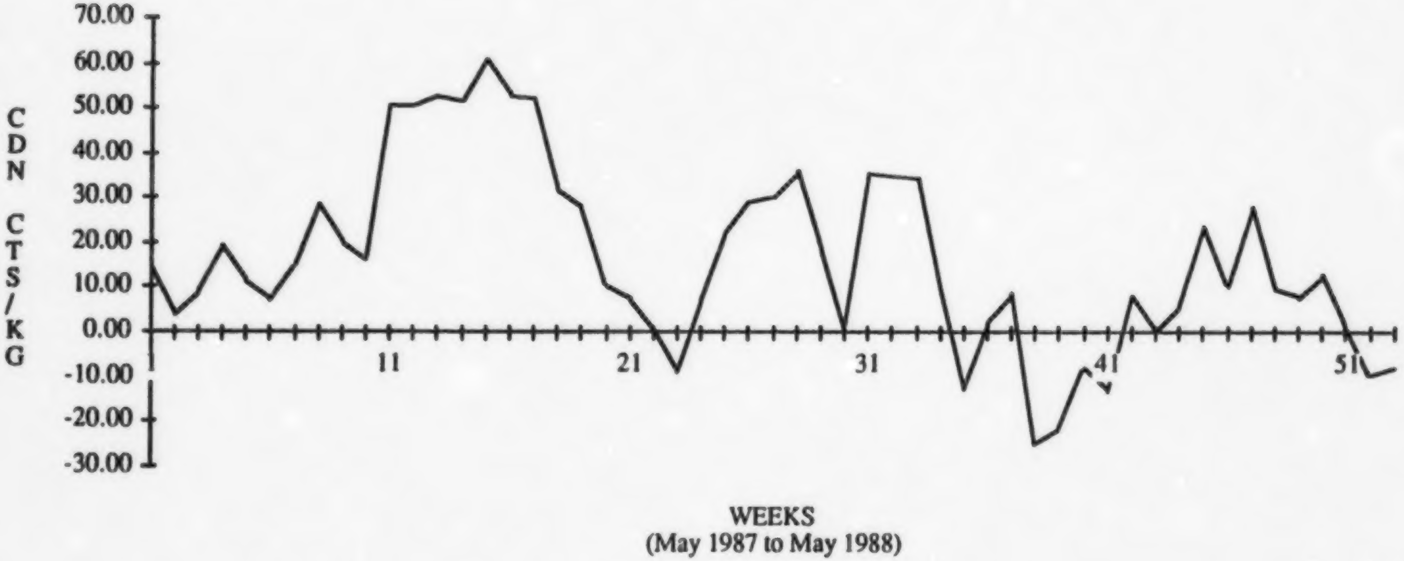


FIGURE 8.6 - ROUND PRICE DIFFERENTIAL

SASKATCHEWAN MINUS U.S. MIDWEST DELIVERED
LOS ANGELES

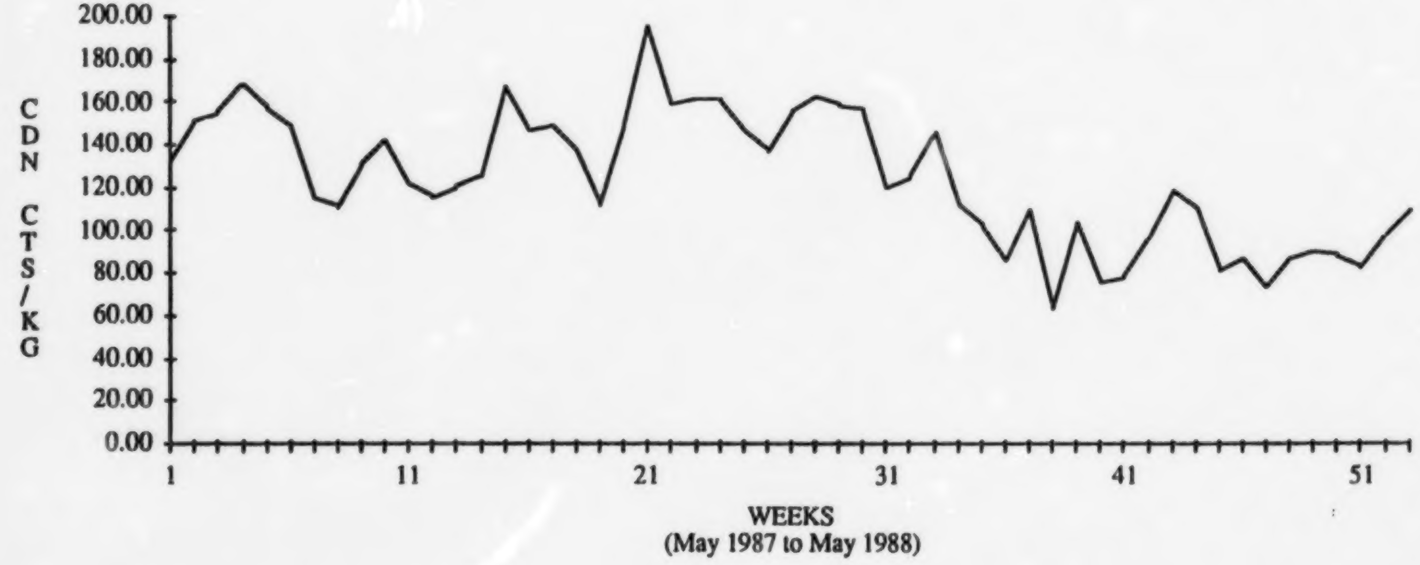
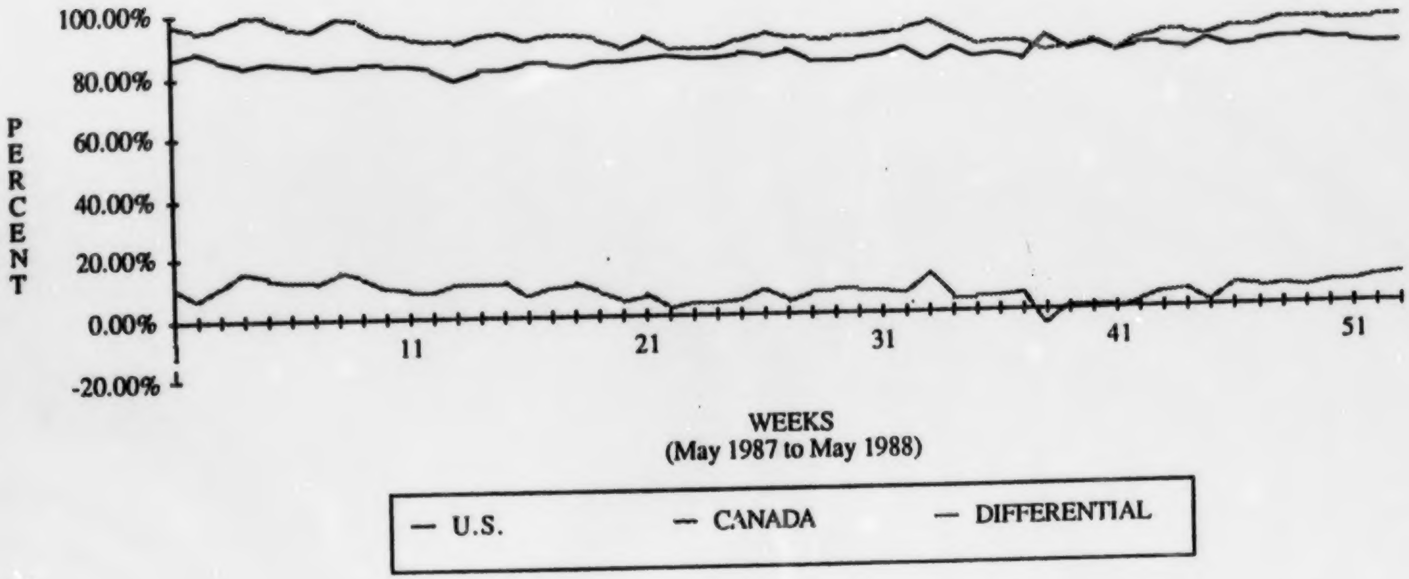


FIGURE 8.7

FOUR PRIMALS AS A
PERCENT OF TOTAL CARCASS VALUE



9.0 ANALYSIS OF BENEFITS

This section outlines the economic benefits which would accrue to the Saskatchewan economy if the beef industry were expanded. In order to project the potential benefits we have calculated the value added for each sector and thereby determined the increase in actual sectoral contribution which would result under several expansion scenarios. The value added concept is used because it estimates the real contribution, by sector, to the Gross Provincial Product.

Value added is defined as the sum of labour (hired or owned), land (rented or owned), interest on all farm debt, and profit. Net value added does not include depreciation (capital cost allowance) while gross value added does[1].

The following percentages have been utilized in calculating the net value added contribution of each sector. These percentages were calculated from production cost reports from Departments of Agriculture and annual reports from a number of companies. They represent averages over a number of years.

Sector	**Value of Animal/ Carcass ($)**	**Estimated Value Added as Percent of Gross Sales (%)**	**Approximate Value Added[2] Per Animal ($)**
Feeder Cattle	530	38	200
Slaughter Cattle	781	11	85
Carcass Beef	835	7	55
Boxed Beef	945	11	100
Retail	992	5	50

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[1] Appendix K provides an example of the method by which value added can be derived from profit and loss statement.

[2] This column indicates the approximate contribution ($/hd) which each stage in the production chain makes to the total value added contributed by the beef industry. The highest contribution, in absolute terms and percentage terms is generated at the farm level.

9.1 Existing Situation

Figure 9.1 summarizes the existing situation in the beef industry in Saskatchewan. Column 1, (Destination) summarizes the flow of beef cattle and beef products in and from Saskatchewan. Column 2, (Equivalent Number of Head) identifies the number of head (or equivalent in the case of beef products) which move to each "destination". Column 3 (Gross Sales) identifies the gross revenue realized from the sale of cattle and meat products to each "destination" and column 4 provides an estimate of the net value added for the provincial economy which results from the sale of cattle and meat products to each "destination" by utilizing the percentages identified above.

The following yields, as a percentage of live animal weight, have been used in the calculations:

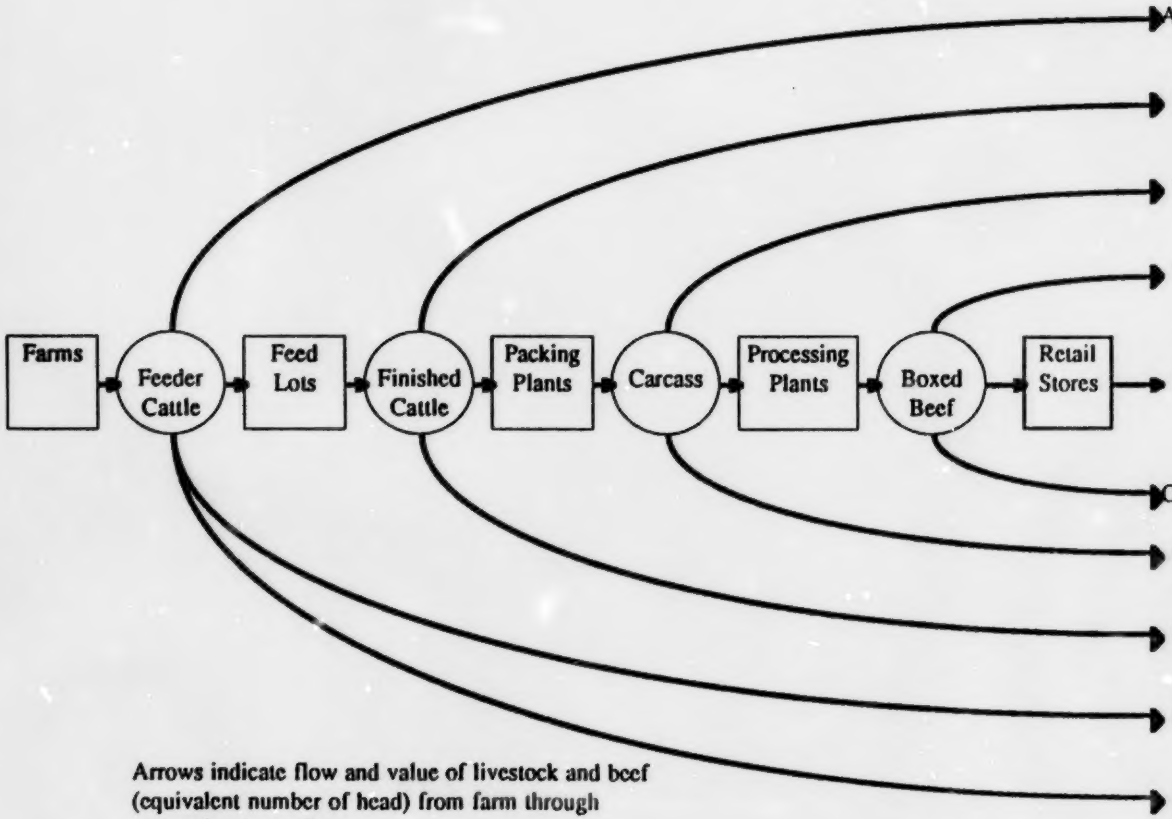
Carcass	58%
Boxed Beef	42%

As is indicated in Figure 9.1, the beef cattle industry in Saskatchewan contributes an estimated $223 million in value added annually to the provincial economy. The major value added contribution, both on a percentage and absolute basis, occurs in the feeder cattle finishing cattle sectors. The contribution made by beef packing, processing and retail are substantially less.

At each stage of the production cycle, there are value added "leakages"; that is, the export of products in a semi-processed (carcass beef) or raw form (feeder cattle) results in a contribution to value added in the importing jurisdiction. The first table in Table 9.1 (9.1.1)indicates the existing situation for the beef sector in Saskatchewan. The last column in the table provides an estimate of the value added contribution which the Saskatchewan beef industry makes to jurisdictions outside the province. Using the U.S. as an example, Saskatchewan's beef industry contributes approximately $5 million through the export of feeder cattle, approximately $3 million through the export of finished cattle, approximately $2 million through the export of beef in the carcass form, and approximately $0.5 million through the export of boxed beef. In total, the Saskatchewan beef industry "exports" approximately $10.5 million in value added to the U.S.

FIGURE 9.1

FLOW OF CATTLE AND BEEF
SASKATCHEWAN - 1984 to 1986


Farms
Feeder Cattle
Feed Lots
Finished Cattle
Packing Plants
Carcass
Processing Plants
Boxed Beef
Retail Stores

DESTINATION	HEAD (000'S)	GROSS SALES ($) MILL	VALUE ADDED ($) MILL
Alberta	162	86	33
Manitoba	94	74	27
USA	13	11	5
USA	8	8	4
Saskatchewan	136	135	67
Other	38	36	17
Other	34	28	11
USA/Other	37	29	11
Other	52	27	10
Ontario	189	100	38
TOTAL	763	534	223

Arrows indicate flow and value of livestock and beef (equivalent number of head) from farm through processing to retail.

Source: Agriculture Canada, Livestock Market Review
Saskatchewan Agriculture, Agricultural Statistic

The Saskatchewan beef sector generates substantial value added (estimated at $154 million) in other provinces and the United States. Three factors contribute to this "export" of value added. Firstly, Saskatchewan is a large exporter of feeder cattle into Ontario and Alberta. Secondly, due to the limited slaughtering capacity in Saskatchewan, approximately 25 percent of the slaughter cattle produced in the province move from Saskatchewan to other markets. Thirdly, since Saskatchewan's population is only 1 million, the provincial beef consumption is less than the current beef production in Saskatchewan.

9.2 Potential Benefits

We have analysed the impact of two possible scenarios in order to determine the potential impact an expansion of the beef industry would have on the provincial economy.

Scenario 1 depicts an annual increase in production of 15,000[1] head resulting from the retention of feeder cattle which are currently being exported; that is, the diversion of 15,000 head from export and into domestic production. It is assumed that these cattle are fed, slaughtered, and fabricated in the province and exported as boxed beef. Scenario 2 depicts an annual increase in overall production of 15,000 head resulting from an increase in the basic cow herd. Again, it is assumed that the cattle are fed, slaughtered and fabricated in the province and exported as boxed beef. No changes in prices or import duties have been accounted for.

Scenario 1 - 15,000 Feeder Cattle Diverted From Export

Table 9.1 summarizes impacts on the various sectors under Scenario 1. The top table (9.1.1) indicates the existing situation and corresponds to the data presented in Figure 9.1. The middle table (9.1.2) indicates the projected value added contribution assuming the retention of 15,000 head of feeder cattle (which are currently being exported) in the province and the last table (9.1.3) indicates the incremental difference between the existing situation and that which is projected.

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[1] The selection of 15,000 head in both Scenario 1 and Scenario 2 was arbitrary. The relationship between increased feeding activity and impact is linear: that is, the diversion of or increase by 45,000 head of feeder cattle would result in impacts three times larger than identified in each scenario.

TABLE 9.1 - IMPACT OF DIVERTING 15,000 FEEDER CATTLE (CURRENTLY EXPORTED) TO EXPORT AS BOXED BEEF

TABLE 9.1.1 VALUE ADDED UNDER EXISTING SITUATION

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	100.3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	35.0	18.6	7.1					7.1	10.2
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	38.0	35.9	7.7	3.3	2.1	3.9		16.9	1.9
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	762.7	533.9	153.8	31.0	12.5	18.5	6.7	222.5	154.0

TABLE 9.1.2 VALUE ADDED - 15,000 HEAD FEEDERS DIVERTED FROM EXPORT

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	100.3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	20.0	10.6	4.0					4.0	5.8
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	53.0	50.1	10.7	4.6	2.9	5.4		23.5	2.6
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	762.7	540.1	153.8	32.2	13.3	20.0	6.7	226.1	150.3

TABLE 9.1.3 INCREMENTAL CHANGE IN VALUE ADDED

	HEAD (1000'S)	GROSS SALES $ mln	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Ontario	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Other	-15.0	-8.0	-3.0	0.0	0.0	0.0	0.0	-3.0	-4.4
Slaughter Cattle to Man	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to Other	15.0	14.2	3.0	1.3	0.8	1.5	0.0	6.7	0.7
Sask Consumption	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	0.0	6.2	0.0	1.3	0.8	1.5	0.0	3.6	-3.6

The increase in value added for the Saskatchewan economy would be approximately $3.6 million per year with the largest impacts accruing to the boxed beef and feedlot sectors. While an increase in value added of $3.6 million may appear to be relatively minor, it would be achieved with relatively little capital outlay. At the feedlot level, there appears to be adequate capacity to handle an additional 15,000 head. The additional costs would be minimal compared to the additional value added contribution. Labor, a varible cost, would be the major cost at the slaughter level and that would create additional employment in the province.

Scenario 2 - 15,000 Feeder Cattle Resulting From an Increase in the Cow Herd

The impact of Scenario 2 is summarized in Table 9.2. The increase in value added for the Saskatchewan economy would be approximately $6.7 million per year with the largest impact accruing to the cow-calf sector through the production of feeder cattle. Costs considerations would be similar to those outlined under Scenario 1; that is, the increased production could be accomplished with relatively little capital outlay.

If the increase over the longer term were 50,000 head per year, the benefits would be approximately three (50,000/15,000) times those outlined above. Some capital investment would likely be required, particularly in the slaughter and fabrication areas.

TABLE 9.2 - IMPACT OF INCREASING PRODUCTION BY 15,000 HEAD

TABLE 9.2.1 VALUE ADDED UNDER EXISTING SITUATION

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	[illegible].3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	35.0	18.6	7.1					7.1	10.2
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	38.0	35.9	7.7	3.3	2.1	3.9		16.9	1.9
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	762.7	533.9	153.8	31.0	12.5	18.5	6.7	222.5	154.0

TABLE 9.2.2 VALUE ADDED - ADDED PRODUCTION OF 15,000 HEAD

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	100.3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	35.0	18.6	7.1					7.1	10.2
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	53.0	50.1	10.7	4.6	2.9	5.4		23.5	2.6
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	777.7	548.1	156.9	32.2	13.3	20.0	6.7	229.2	154.7

TABLE 9.2.3 INCREMENTAL CHANGE IN VALUE ADDED

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Ontario	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to Man	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to Other	15.0	14.2	3.0	1.3	0.8	1.5	0.0	6.7	0.7
Sask Consumption	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	15.0	14.2	3.0	1.3	0.8	1.5	0.0	6.7	0.7

TABLE 9.2 - IMPACT OF INCREASING PRODUCTION BY 15,000 HEAD

TABLE 9.2.1 VALUE ADDED UNDER EXISTING SITUATION

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	100.3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	35.0	18.6	7.1					7.1	10.2
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	38.0	35.9	7.7	3.3	2.1	3.9		16.9	1.9
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	762.7	533.9	153.8	31.0	12.5	18.5	6.7	222.5	154.0

TABLE 9.2.2 VALUE ADDED - ADDED PRODUCTION OF 15,000 HEAD

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	162.0	86.0	32.7					32.7	47.3
Feeders to Ontario	189.0	100.3	38.1					38.1	55.2
Feeders to U.S.	16.7	8.8	3.4					3.4	4.9
Feeders to Other	35.0	18.6	7.1					7.1	10.2
Slaughter Cattle to Man	94.0	73.5	19.0	8.1				27.0	19.4
Slaughter Cattle to U.S.	15.7	12.2	3.2	1.3				4.5	3.2
Slaughter Cattle to Other	21.7	16.9	4.4	1.9				6.2	4.5
Carcass Beef to U.S.	13.0	10.9	2.6	1.1	0.7			4.5	2.0
Carcass Beef to Other	34.0	28.4	6.9	2.9	1.9			11.6	5.1
Boxed Beef to U.S.	8.0	7.6	1.6	0.7	0.4	0.8		3.6	0.4
Boxed Beef to Other	53.0	50.1	10.7	4.6	2.9	5.4		23.5	2.6
Sask Consumption	135.7	134.7	27.4	11.7	7.4	13.8	6.7	67.0	0.0
Subtotal	777.7	548.1	156.9	32.2	13.3	20.0	6.7	229.2	154.7

TABLE 9.2.3 INCREMENTAL CHANGE IN VALUE ADDED

	HEAD (000'S)	GROSS SALES ($ MILL)	VALUE ADDED IN MILLIONS OF DOLLARS						
			Feeders	Slaughter	Carcass	Boxed Beef	Retail	Sask	Outside
Feeders to Alberta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Ontario	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feeders to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to Man	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slaughter Cattle to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carcass Beef to Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to U.S.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boxed Beef to Other	15.0	14.2	3.0	1.3	0.8	1.5	0.0	6.7	0.7
Sask Consumption	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	15.0	14.2	3.0	1.3	0.8	1.5	0.0	6.7	0.7

10.0 SUMMARY AND RECOMMENDATIONS

10.1 Summary

A number of opinions have been presented by the people who were interviewed during the course of the study. Some of them were supported by the data; some were purely conjecture. The conclusions presented below are either supported by data, supported by information we obtained from the literature, or supported by information from other sources which we believe to be credible.

Southern California

1. The Southern California market is large, highly sophisticated and very price competitive. A new market entrant at the wholesale level would have to meet the competition (especially IBP) on quality and price. There *may* be an opportunity to extract a price premium for Canadian products based on quality, leanness, and yield, once the value of the product is recognized by the trade.

2. Several consolidations have taken place in the Southern California retail sector recently. More are possible. The market is becoming relatively concentrated, but this is not expected to have a particularly negative impact on competition. There will continue to be niche markets available to smaller competitive companies.

3. The Southern California market will become a more important market outlet for the Western Canadian beef industry with (1) adoption of the FTA, and (2) with the increasing presence of U.S. no roll in Eastern Canada.

4. Canadian A1 and A2 beef is acceptable and in fact being sold into the market by U.S. packers based in the Northwest. Beef products of Canadian origin are generally viewed positively by Southern Californian consumers.

5. Canadian A1 and A2 sub-primals slaughtered and fabricated in Canada were not price competitive in the Southern California market during most weeks from May, 1987 through May, 1988.

6. Any Canadian entity embarking upon a beef marketing program in the U. S. would have to make a solid, long-term commitment to the market; that is, be a regular supplier on a week-in, week-out basis regardless of minor short term price fluctuations.

7. Proper market representation (personnel) will be an important ingredient of an overall marketing program in the U.S. Whereas the wholesale market in Canada tends to be confrontational, the U.S. attitude on both sides (buyer and seller) appears to be far more cooperative; that is, buyers and sellers attempt to work out problems in a conciliatory, rather than a confrontational manner. Personal relationships play a larger role in the U.S. trade than they do in Canada.

8. California consumers are demanding a leaner beef product. Lean, in the U.S. Market means **trimmed** to 1/4 inch external fat. A marketable steak in Southern California is lean (trimmed), reasonably priced, bright red in color and sold in portions for 1-2 or 3-4 people. At the present time, California consumers do not differentiate trimmed beef from beef which is produced lean. There is an opportunity to differentiate a beef product on the basis that it is produced lean rather than trimmed lean.

9. "Natural" beef is a minor factor in the market. It has been tried and discontinued by several of the larger retail chains. It does not have the support of the larger retail chains and the majority of consumers, although they express interest, are unwilling to pay the price premium attached to natural product (approximately 25%). The availability of "natural" product has heightened consumer concerns about hormones and antibiotics in "regular" beef.

Canada

1. The Cargill plant at High River will have a substantial impact on both the production and processing sectors in the prairie region. Rationalization of the current killing capacity may result. In the short to medium term Cargill's entry into the market will result in a relatively higher price for slaughter cattle than would have been the case had the plant not been built.

2. Cargill's entry into the market will result in an increase in the use of contractual arrangements for slaughter supplies by all plants in the region as the plants which have historically been drawing cattle from the region attempt to ensure adequate kill levels.

3. There is limited opportunity to establish a niche market for a high quality, well-aged, branded product in Montreal. Developing the market would require solid commitment from a packer and, more importantly, a retailer.

4. Loblaw's is the only major retailer currently involved with the promotion and sale of "natural" beef. It would appear unlikely that any other retailers expect to become involved in a "natural" program in the foreseeable future. Total sales of "Natural Choice" in 1987 were approximately 10,000 head (less than 1/2 of 1 percent of total beef sales in Canada). Although Loblaw's and its suppliers see a bright future for the product, the industry in general is negative to the concept on the basis that promotion of a "natural" product implies that regular beef is contaminated with antibiotics and hormones. The consumer survey undertaken by OMAF confirms the industry's view. The logical extension of the consumer survey result is that the promotion and sale of natural beef will have a negative impact on (1) overall beef consumption and accordingly (2) beef prices and profitability in the industry.

5. Although price premiums for "Natural Choice" at the retail level are substantial, (between 16 and 32 percent higher than regular beef),they are only $0.20/cwt (approximately 15 percent) at wholesale and $0.05/cwt (approximately 5 percent) at the feeder level. Production costs, to the wholesale level, are between 20 and 30 percent higher than they are for regular beef.

6. Barring a change in the Canadian regulations regarding grading requirements on imported beef, import levels of U.S. "no roll" will increase with the adoption of FTA. This will accelerate the change in trade flows from west-east to north-south.

7. The Free Trade Agreement will have a positive impact on Canada - U.S. trade in beef in that tariff and non-tariff barriers will be removed. We tend to agree with estimates that the long-term expansion in the Western Canadian beef industry, resulting directly from the FTA to be in the order of 5 percent per annum. Rejection of the FTA will have a negative impact on the industry in that the trade relationship will not return to the status quo if the FTA is rejected. Exchange rates will have more impact on Canada - U.S. beef trade over the long run than will the Free Trade Agreement.

Saskatchewan

1. Saskatchewan has the potential and the resources to increase beef production in the province. Feeder cattle are available. The province exported between 300,000 and 600,000 feeder cattle each year between 1976 and 1987. Some excess feedlot capacity is available. We estimated excess feedlot capacity to be approximately 80,000 head per year at the present time. Feedlot capacity could be increased by 10 to 15 percent with minimal capital investment. Feed grain supplies are currently available and increased stable supplies will be available with increased irrigated acres.

2. The future development of the cattle feeding sector in Saskatchewan will be affected by the way in which the provincial government deals with the Saskatchewan Beef Stabilization Board. Current feedlot producers are very aware of the benefit of SBSB and will consider changes to the program carefully (adjustments to the SBSB formula or a move to join the National Tripartite Price Stabilization Scheme) before going forward with expansion plans.

3. The feedlot sector in Saskatchewan has been relatively more profitable than it has in Alberta in the years since the introduction of the Saskatchewan Beef Stabilization Board. With the relative profitability of Saskatchewan's feedlot sector, it is difficult to understand why feedlot production has not increased at a faster rate in the province. We conclude that it is because producers are either not informed, not interested, or were severely hurt in the price-cost squeeze of the late seventies.and, because of that experience, not inclined to consider the feedlot business again.

4. Our analysis of price competitiveness indicates that Saskatchewan-produced primals and carcasses are not competitive in Los Angeles with product originating from the mid-west U.S. With trade patterns changing in North America, the Western Canadian packing industry is going to have to become competitive to stay is business.

5. The majority of the people interviewed expressed the view that SWP has a major role to play in the expansion of the beef industry in Saskatchewan. The Company's large size and the infrastructure which the Pool has in place were seen to be positive factors in the province's effort to expand its beef industry.

10.2 Recommendations

1. Develop and/or consolidate an improved information base on the existing Sasakatchewan beef industry.

We were able to establish that Saskatchewan has the existing capacity to expand its beef industry but our estimate of the amount of excess capacity (in the feedlot sector) involved several assumptions which had to be made because the information was simply not available in a useable form. We expect that much of this data is available, but simply has not been consolidated.

If Saskatchewan is to expand its market for processed product, an expanded but stable supply of high quality raw product (slaughter cattle) will be required. At this juncture we can state definitively that the *potential* for increased output exists. We can not be as sure of the extent of this potential.

2. Expand extension and education effort in the area of feedlot production.

Our analysis of feedlot profitability, although not a definitive study on the absolute level of profitability in the industry, indicated that the feedlot business in Saskatchewan has been relatively more profitable than it has been in Alberta (even after "Crow offset" and tripartite stabilization are considered), since the inception of the Saskatchewan Beef Stabilization Program. That given, Saskatchewan continued to export in excess of 300,000 feeder cattle (more than 125,000 to Alberta) through the years 1982 to 1987.

The Saskatchewan Government has developed and invested in several programs which are designed to diversify the agricultural economy in the province. Although slaughter cattle production increased substantially during the year the stabilization program was put in place, production has dropped from the 1982 level and in 1987 was in fact less than it had been in 1982. Exports of feeder cattle through the period have declined, but only in 1987 were feeder cattle exports less than 50 percent of marketings. Given the government incentives, the relative profitability of feedlot production, and the apparent availability of feeder cattle, one must conclude that Saskatchewan farmers are either not informed about the profit potential, simply not interested in increasing feedlot production, or are too uncertain about the future of the Saskatchewan Stabilization Board.

On the assumption that the problem is in the area of information availability, our specific recommendations are:

1. Poll farmers (at least current cow/calf and feedlot producers) to determine their (1) level of expertise and (2) level of interest in an expanded extension effort in the area of livestock production.

2. Develop an extension program (it could be tied to some of the Provincial Government's incentive programs or to SWP's feeder finance program) which satisfies the needs identified in (1) above.

Research the Western Canadian packing industry's apparent inability to be price competitive with primal cuts and carcasses delivered to California.

Our research indicated that over the past year, Canadian primal cuts and carcasses (originating in Saskatoon) were not price competitive with alternative U.S. supply sources c&f Los Angeles. Interviews with industry participants confirmed that this situation is not unique to Saskatoon; that Western Canadian packers have, in general, not been price competitive in the California market with either primals or carcasses. The reduction of tariffs resulting from the adoption of the FTA will not change the Canadian industry's competitive position in that regard substantially.

As U.S. imports into Eastern Canada become an increasingly important factor in that market (and in our view they will), Western Canadian packing firms will be forced to look to the Western U.S. as a market outlet. In order to compete effectively in that market, they will have to be price competitive with current suppliers.

Canadian labor rates and productivity have been blamed for much of the differential. It is apparent, from earlier research, that Canadian labor rates are higher than are U.S. rates. The situation will worsen as and if the Canadian dollar strengthens.

The labor cost differential only goes part way in explaining the large beef price differences. Given that the Western Canadian industry is going to have to compete in the Western U.S. it is important that the reasons for its current inability to be price competitive be fully understood so that adjustments can be made. If the adjustments are not made, industry growth will be constrained. The implications for the production sector are obvious.

The price differentials may be a function of the fact that Eastern Canada (Montreal) has been one of the highest priced beef markets in North America, and except for the past few years, it has been the exclusive domain of the Western Packers. There has been relative little need or incentive to develop the U.S. market or become competitive on the basis of cost of slaughter and processing with the U.S. industry. Canadian packers may in fact be competitive on the basis of overall costs, but may have been reticent to forego the better margins which have been available in Montreal in order to develop the U.S. market. These questions and others need to be addressed in an objective, detailed manner.